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FINANCIAL TIMES

Europe's Business Newspaper — MONDAY APRIL 19 1993

Russian bank head says credit deal is meaningless

The chairman of Russia's central bank has described the much-heralded deal between the government and the bank on limiting credit expansion as meaningless, and predicted that it will be broken. Victor Gerashchenko (left) said Boris Fyodorov, the deputy prime minister in charge of economics and finance, would not be able to keep spending within agreed limits. Page 3; **Yeltsin has the edge as referendum nears, Page 3**

Farewell to Hani: Tens of thousands of grieving South African blacks paid their last respects to assassinated guerrilla leader Chris Hani, as evidence emerged that his death may have been part of a rightwing conspiracy to destabilise democracy talks. Page 14; **Mandela eases himself into media spotlight, Page 6; Editorial Comment, Page 13; Evangelist of good sense, Page 32**

Seat, Spanish carmaker owned by Germany's Volkswagen group, suffered losses last year for the first time since 1988 after being hit by high debt servicing charges, a weakened peseta and a shrinking market. Page 15

Purchaser accused: The Iraqi-owned company that sold Matrix Churchill, the former UK machine tool manufacturer, two years ago is taking legal action against the buyer for allegedly defaulting on a staged payment due in January. Page 14

Talks postponed: Arab delegations to the Middle East peace negotiations have forced a week's delay in the opening of the ninth round of talks due to begin tomorrow. Page 6

Poll prediction: Spain's general elections could produce a hung parliament on June 6, according to the first opinion polls to be published since Socialist prime minister Felipe Gonzalez called a snap poll a week ago. Page 6

Minister fired: President Hosni Mubarak of Egypt sacked his minister of the interior following mounting criticism of the violent response by the security forces to the recent wave of attacks by Islamic extremists. Page 6

Europa Metalli, industrial arm of Societa Metallurgica Italiana, Europe's biggest maker of semi-finished copper and alloy products, plunged into a L67.4bn ($44m) loss owing to the recession and problems at its French subsidiary. Page 18

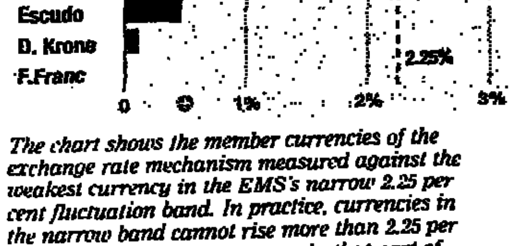
Boost for AMD: A US court ruling has opened the way for Advanced Micro Devices to compete with Intel in the market for microprocessor chips used in the latest generation of personal computers. Page 15

C&J Clark, UK shoe manufacturer riven by board dissent, is poised to inform shareholders of the details of a bid from Berisford International, property and agribusiness company. Page 15

European Monetary System: The Spanish peseta starts the week looking a little more feeble in the European exchange rate mechanism grid. At the start of last week, there were some 1.73 percentage points separating it from the weakest currency, the French franc. That divergence has slipped to 1.37 percentage points in the last four trading days.

The slippage is partly due to the franc's stronger performance, following last week's cut in one of the Bank of France's key interest rates. But the news that Spain's general elections are to be brought forward to June 6 has put the peseta under pressure. Foreign exchange dealers doubt whether Spain's opposition parties are as committed as the Socialists to the peseta's membership of the ERM. **Turmoil abates but worries remain, Page 3; Currencies, Page 27**

EMS: Grid April 16, 1993



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. The Spanish peseta and Portuguese escudo operate with 6 per cent fluctuation bands.

Radar attack: A US fighter aircraft destroyed an Iraqi radar site after being targeted by anti-aircraft radar while patrolling the no-fly zone in northern Iraq, the US European Command said.

IBM, world's largest computer manufacturer, and IBM CreditCorp, its leasing subsidiary, are preparing to launch a $4.6bn syndicated loan, according to banking sources. The financing is for general corporate purposes. Page 18

Maastricht move: The UK's opposition Labour party will today launch a fresh attempt to force ministers to back down over Maastricht's social chapter. Page 8

Bosnian Serbs to quit peace talks

Move follows anger at UN vote to tighten sanctions

By Robert Mauthner and Our Foreign Staff

Serbs look to Yeltsin's enemies .... Page 2

THE BOSNIAN Serbs intend to walk out of the international peace talks chaired by Mr Cyrus Vance and Lord Owen following the United Nations Security Council's decision at the weekend to impose tighter sanctions against the rump Yugoslavia.

This was made clear yesterday as UN helicopters began evacuating seriously wounded civilians *from Srebrenica, the encircled* eastern Bosnian Moslem town, under a ceasefire agreement negotiated between the military chiefs of the Serb attacking forces and the Moslem defenders early yesterday.

Mr Radovan Karadzic, the Bosnian Serb leader, told Belgrade Radio that the self-styled Bosnian Serb "parliament" would decide whether the Bosnian Serb delegation would leave the talks before April 26 or after.

That is the deadline set by the Security Council for the implementation of the new sanctions, unless the Bosnian Serbs sign the Vance-Owen plan, dividing Bosnia into 10 semi-autonomous provinces.

The sanctions are intended to put on pressure Serbia to force the Bosnian Serbs to endorse the *peace plan. Under the sanctions,* all countries would be banned from transporting goods across Serbia and Montenegro, monitors would be placed on Danube river ships, financial assets would be frozen, a maritime exclusion zone would be set up in the Adriatic, and Yugoslav planes and trucks abroad would be impounded.

For the moment, however, sanctions appear to be having the opposite effect from that intended, with Mr Karadzic angrily describing them as a "diktat and imposition". Lord Owen, who has been advocating air strikes against strategic bridges and roads in Bosnia as part of the effort to deprive the Bosnian Serbs of vital supplies, is *flying to Belgrade on Wednesday* for talks with President Slobodan Milosevic of Serbia.

His mission is widely seen as a desperate and possibly final attempt to persuade Mr Milosevic to make the Bosnian Serbs accept the peace plan.

In Srebrenica, three French Puma helicopters, aided by 145 UN Canadian troops and a number of armoured personnel carriers which moved into the town to monitor the ceasefire and start disarming the Moslem defenders, flew out 38 casualties to the Moslem-held northern Bosnian town of Tuzla. Airborne evacuations of some 500 badly wounded or sick people are due to continue for several days, barring hold-ups by Serbian inspections.

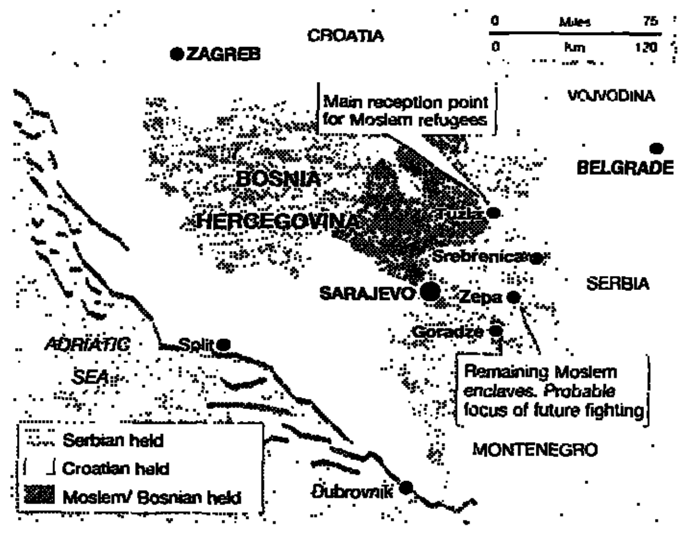
A UN spokesman said Srebrenica, which is surrounded by Serb troops within rifle-fire range, was calm while the evacuation took place. Claims by the Moslem-controlled Sarajevo radio that the Serbs shelled Moslem defensive lines round the town after the ceasefire came into effect at 2 a.m. local time, *could not be confirmed* by independent sources.

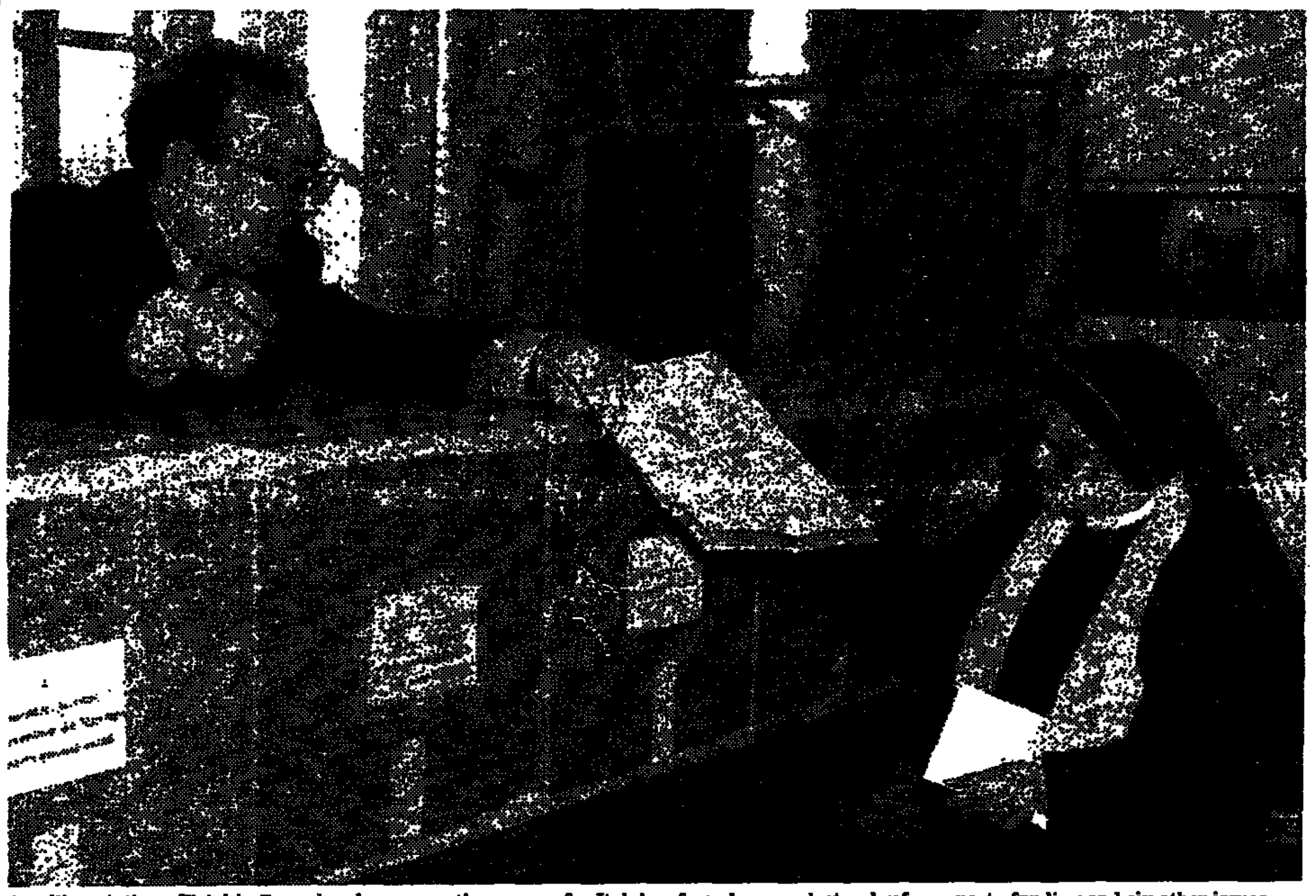
The Canadian UN soldiers have orders to *secure the demilitarisation* of Srebrenica, with a population of some 30,000 and one of the last Moslem-held strongholds of eastern Bosnia, within 72 hours of their arrival.

The UN-brokered agreement, which was signed by General Ratko Mladic, the Bosnian Serb army commander, and Mr Sefir Halilovic, the Moslem-led Bosnian army chief, demands that all Moslem troops should turn in their weapons and ammunition to the UN forces by 11 a.m. on Wednesday. While it guarantees "correct treatment" for any personnel who hand over their arms to the UN, it does not provide for the disarming of the besieging Serb forces, which are armed with heavy weapons.

Though UN spokesmen denied

Continued on Page 14





A polling station official in Rome hands a nun voting papers for Italy's referendum on electoral reform, party funding and six other issues

Voters in Italy signal support for poll reforms

By Haig Simonian in Milan

ITALIAN voters appeared yesterday to give strong support to electoral reform and the ending of state funding for parties.

The referendums on those issues were the first national test of public reaction to the wave of corruption scandals which has seen the arrest of some of the country's leading politicians and businessmen.

Mr Giuliano Amato, the prime minister, whose shaky four-party coalition has led the country through almost 10 months of unprecedented political upheaval, will consult President Oscar Luigi Scalfaro today.

Mr Amato is likely to express his readiness to resign, having said at the weekend that he believes his government has reached its end.

Speaking to the Confindustria employers' federation, he said Italy needed new faces to implement the popular desire for political reform.

Voting, which began yesterday and will continue until 2pm today, showed a strong turnout for the eight separate referendums, which also include abolishing three ministries and reforming laws on drugs, the environment and state bank appointments.

Although exit polls will not be available until later today, it is expected that there will be strong support for the two main referendums, which concern changing the electoral system for the senate, the upper house of parliament, and abolishing state funding for political parties.

At 5pm yesterday, 30.7 per cent of the electorate had voted, 8 percentage points higher than at the same stage in the last referendum two years ago.

Continued on Page 14
Ian Davidson, Back page, Sect II

Pakistan president ousts government

By Farhan Bokhari in Islamabad

PAKISTAN'S President last night dismissed the government of Prime Minister Nawaz Sharif and appointed an interim military-backed administration.

The decision was the climax to a bitter power struggle between Mr Sharif and President Ghulam Ishaq Khan, who accused the government of corruption and terrorising its opponents. Mr Khan has promised new elections.

The move came as troops loyal to the President guarded the state television and radio station in Islamabad.

It followed a speech on Saturday by Mr Sharif, in which he indirectly accused the president of supporting the government's opponents and campaigning to oust it.

Among the reasons cited by the president for the dismissal were the recent resignations of the members of the assembly and of ministers from the cabinet, worsening relations between the federal government and the four provinces, and government corruption.

The president replaced Mr Sharif with Mr Balakh Sher Mazari, a little known feudal landlord from the province of Punjab. He will serve as interim prime minister until a new assembly is elected.

The new government will also include members of Ms Benazir Bhutto's opposition Pakistan Democratic Alliance. One of the two ministers sworn in last night, Mr. Farooq Leghari is among Ms Bhutto's closest aides.

The dissolution order was announced less than four hours after a meeting between the president and Ms. Bhutto, which in itself was seen as a thaw in their relations. Mr Khan sacked Ms Bhutto's government on charges of corruption in August 1990. The subsequent elections were won *by Mr Sharif, the president's protégé* at that time.

Mr Sharif will be best remembered for initiating large scale reforms to unshackle the economy from bureaucratic constraints. However, senior government officials said the new government will try to reassure the business community that its interests will be protected amid fears of the reversal of Mr. Sharif's policies.

Mr Mazari appointed a two-minister cabinet last night. On the issue of his relations with the business community, Mr Mazari described them as 'the backbone' of the country. In recent days, businessmen have been worried over the future of the country's economic direction.

Elsewhere on the streets of Pakistan, there were few reports of violence.

Turkey faces threat of crisis

By John Murray Brown in Ankara

TURKEY appeared to be heading for a possible constitutional crisis yesterday after the death of President Turgut Ozal.

Mr Ozal, 65, who collapsed on Saturday with heart failure, was a reformer who for many in the west symbolised Turkey's return to democracy and transition to a market economy.

His death is unlikely to signal a shift in Turkey's pro-western foreign policy. But with no obvious successor and with party strengths in parliament finely balanced, diplomats say there is a real danger that the coalition government of Mr Suleyman Demirel may become bogged down in infighting.

If no consensus emerges after four parliamentary ballots to choose a new president, the constitution calls for general elections for a new assembly.

Having dominated the Turkish landscape, steering the country through the Gulf war and the subsequent Kurdish refugee crisis, Mr Ozal had recently become more isolated.

His loss will perhaps be most keenly felt by the Kurdish minority, which had come to

Continued on Page 14
Obituary, Page 2

Austria	Sch30	Greece	Dr300	Lux	LFr60	Qatar	QR12.00
Bahrain	Din1.250	Hungary	Ft172	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr60	Iceland	IKr180	Morocco	MDh13	Singapore	S$4.10
Bulgaria	Lw25.00	India	Rs40	Neth	Fl 3.75	Slovak Rp	KSL45
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira30	Spain	Pta200
Czech Rp	Kcs45	Israel	Shk5.90	Norway	NKr16.00	Sweden	SKr15
Denmark	DKr15	Italy	L2700	Oman	OR1.50	Switz	SFr3.20
Egypt	E£4.50	Jordan	JD1.50	Pakistan	Rs35	Syria	S£50.00
Finland	FM12	Korea	Won 2500	Philippines	Pso45	Thailand	Bht50
France	FFr8.50	Kuwait	Fils.600	Poland	Zl 22,000	Tunisia	Din1.250
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es215	Turkey	L7000
						UAE	Dh11.00

CONTENTS

Serbs look to Yeltsin's enemies

By Laura Silber in Belgrade

IN SPITE OF stepped-up sanctions and the threat of military intervention, Serbs still believe that Russia will wrest them from the clutches of the west.

Serb leaders are rooting for the victory of their communist-nationalist counterparts in Russia over President Boris Yeltsin in the referendum set for April 25.

They have fostered ties with Mr Yeltsin's fiercest opponents who make frequent visits to Belgrade and Serb-held territories in Croatia and Bosnia.

Serbia appears convinced that the US, faced with a choice between Bosnia and Mr Yeltsin, will not force Russia to oppose Serbia, its traditional ally and favourite of Russian nationalists. Remaining defiant even amid threatened sanctions, Serb commanders pressed on to mop up remaining pockets of Moslem resistance in eastern Bosnia.

Diplomats believe after Srebrenica, Serb forces will seize control of Gorazde and Zepa, the last two strongholds to the southeast.

Belgrade radio, in the grips of Serbian President Slobodan Milosevic, yesterday railed at Mr Yeltsin ater Russia abstained from a vote in the UN Security Council on a new package of draconian sanctions on Serbia.

"Russia's abstention is nothing more than the shameful heeding of a Western *diktat* and the unprecedented interference in the internal affairs of Yugoslavia," said the radio, which frequently denounces Mr Yeltsin as a traitor of Russia and the Orthodox world.

"The UN resolution apparently was adopted before the referendum on April 25 because the West is afraid that it will not win after Yeltsin falls," said the radio.

Mr Nikola Koljevic, a leader of the self-styled Bosnian Serb state, said on Belgrade radio at the weekend: "If the Serbs are punished for Srebrenica, we will have to reveal the secret pact made with Mr Vitaly Churkin, Yeltsin's special envoy to former Yugoslavia, before the referendum is held."

Mr Koljevic hinted that Serbia could help topple Mr Yeltsin if their "Orthodox brethren learned the truth about the Bosnian game," said the radio, dismissing western outrage about Srebrenica as an "unprecedented case of media manipulation."

Diplomats believe after Srebrenica, Serb forces will seize control of Gorazde and Zepa, the last two strongholds to the southeast

"Serb military and political chiefs see the current situation as a revival of the First World War and the Great Powers configuration," says a western diplomat.

Mr Radovan Karadzic, Bosnian Serb leader, often warns that the war in Bosnia is the beginning of the Third World War and believes Russia will take a stand against the West in the Balkans.

"Many wars have begun in the Balkans without Russia, but not one ended without Russia getting involved," recently said Mr Bozidar Vucurevic, a lorry driver turned leader of the self-styled Serb state in Bosnia.

"I am waiting for the day when Russia will air drop aid packets to the Serbs," said General Milan Gvero, deputy Commander of Bosnian Serb forces.

Serbian television devotes far more attention to the power struggle in Russia than the war in Bosnia. Strapped for cash after two years of war and eleven months under UN sanctions, the television has only two foreign correspondents. They are both posted in Moscow and constantly crowing about any setback for Mr Yeltsin.

Despite the official ire and venom unleashed on Mr Yeltsin, Serb leaders have even gone so far as to invite "patriotic Russian forces" to intervene in Serbia.

"Help us escape from the ghetto and destroy the dungeon in which the hellish Powers have locked us," said a letter to Russian parliamentary deputies from Serbian politicians and Orthodox Church leaders, recently published in Vecernje Novosti, a Belgrade daily.

"Let your boats sail the waters of the Danube and the Adriatic. Let your planes appear on our skies...Russia was always together with Serbia and will be from the Pacific to the Adriatic."

Relief workers set to enter Srebrenica

By Laura Silber in Belgrade

RELIEF WORKERS are today due to enter Srebrenica, the fallen enclave in eastern Bosnia, to begin the evacuation of tens of thousands of trapped Moslems.

But it is unlikely the mass evacuation to Tuzla, some 60 miles north-west, will get under way before an agreement is reached on the fate of the defeated defenders of Srebrenica. A UN-brokered pact at the weekend allows for the freedom of movement for some 30,000 civilians, most of whom have fled from village to village over the past year seeking sanctuary from the Serb onslaught.

The pact between commanders of the Moslem-led Bosnian Army and Bosnian Serb forces leaves open the possibility for unarmed civilians to remain in Srebrenic in a "safe area" whose parameters have yet to be agreed.

However, faced with a lack of food, medicine and chronic shortages of electricity and water, relief workers believe most of the people will try to jam onto relief lorries to leave the devastated Srebrenica. Unconfirmed reports on amateur radio, the only links with the outside world, yesterday said the population remained indoors afraid to venture out of their crowded shelters.

Shattered refugees, who earlier managed to escape to Tuzla, the biggest government stronghold, described "unbearable" conditions after a year under Serb siege in the town set in the foothills of the Drina River valley. "Everyone wants to leave. There's no food. The Chetniks (Serb forces) were constantly shooting at us," recently said Ms Azreta Habibovic who was fortunate to escape before the Serb bombardment which on April 12 claimed 56 lives and wounded scores more.

Mr MacKay Wolff, a senior officer of the UN High Commission for Refugees, said authorities in Tuzla were prepared to shelter all the refugees. "They have agreed to accept a quota of 36,000 expellees into their respective municipalities," he said yesterday in an interview.

The refugees will be settled in about 15 districts in what relief workers call the Tuzla finger, the area north of Olovo. About ten per cent of the 3,000 refugees per district will be housed in collective centres, which include schools, museums, and hospitals.

Obituary: Turgut Ozal

Reformer who built on Atatürk's legacy

TURGUT Ozal, who died suddenly on Saturday, dominated Turkish politics for the last decade. Appointed by the generals in the wake of the 1980 *coup d'état*, he was to oversee Turkey's critical transition to civilian rule, becoming prime minister in 1983 and eventually succeeding Gen Kenan Evren as the country's second civilian president in 1989.

His achievements as a reformer are second only to those of Mustafa Kemal Atatürk, the country's founder. If Atatürk erected the social and political pillars of a pro-western, secular Turkey, Mr Ozal was the architect of the country's economic recovery and the driving force behind its policy to join the European Community.

His relations with the military were one of the central contradictions of his career.

He remained, to his death, the only Turkish politician strong enough to challenge the military on key security questions. As if to symbolise his independence of the generals, on one famous occasion he was to review troops dressed in Bermuda shorts and a sun hat.

In many ways, Mr Ozal epitomised modern Turkey. A devout Moslem – he was even said to have had close ties with the fanatical Nakshibendi sect – he was profoundly democratic in many of his political views.

He once claimed to be the first Turkish leader to use the word Kurd in public; previously this troubled minority were referred to as mountain Turks. He was certainly the first Turkish leader to contemplate a political solution to the Kurdish problem, perhaps Turkey's single greatest challenge today.

His loss will be strongly felt by moderate Kurds who looked on him as an unofficial patron of the campaign for greater political and human rights.

His death occurs at a critical time, as Mr Suleyman Demirel's government considers its response to the current ceasefire offered by the rebel Kurdish Workers' party (PKK).

Mr Ozal was born in 1927 in Malatya and was an electrical engineer by training. He worked at the World Bank in Washington in the 1970s, returning to a series of posts in the Turkish private sector before becoming adviser to the government of Mr Demirel. With the military coup of 1980, Mr Ozal was asked to stay on, a move that soured his relations with Mr Demirel ever after.

Turgut Ozal: architect of Turkey's economic recovery

In the restrictive political environment that followed the coup, Mr Ozal was able to push through an austerity package, which might have proved difficult under a more democratic system.

The reforms centred on trade liberalisation, removal of exchange controls, and in 1982 the rescheduling of Turkey's $3.2bn foreign debt. Within three years, adopting classical monetarist strategies, Mr Ozal pulled inflation down from 120 per cent to 30 per cent and doubled Turkey's exports.

After a timely resignation in July 1982, he founded the Motherland party (Anap), a curious mix of progressive and conservative elements, a coalition of technocrats, businessmen and farmers. The party emerged as clear winner in the restricted election of 1983. Somewhat reluctantly at first, the generals approved Mr Ozal's choice of cabinet, formally handing over power on December 13 1983. Anap won again in 1987 and Mr Ozal progressively turned his energies to foreign policy.

He was admired if not liked by the political establishment. Some Turks became concerned Mr Ozal's policies were threatening the country's European identity, as enshrined in the Kemalist legacy.

In 1987, against the advice of many foreign ambassadors in Ankara, Turkey applied for full membership of the European Community. A one-time Islamic nationalist, Mr Ozal strongly contended that Turkey's application was politely rejected, on the grounds of religion, by a Christian European club.

Throughout the cold war Turkey provided the Nato alliance with a bulwark against the Soviet Union on its south-eastern flank. During the Gulf war, Mr Ozal overrode strong public opposition to impose sanctions against Iraq and to provide the US-led coalition with the use of bases, once more re-asserting Turkey's western identity.

JMB

Storms in ERM leave some currencies adrift

By Peter Marsh, Economics Correspondent

NOW that the storms afflicting the European exchange rate mechanism have quietened, the survivors appear to be pulling up the gang planks on the unfortunates swept overboard.

In discussions in Basle, Switzerland, today and tomorrow, governors from the 12 European Community central banks plan to finish a report to be handed to EC finance ministers next month on what caused the turmoil and lessons from it.

The talks will centre on the outlook for Britain and Italy, whose currencies were forced to leave the ERM last autumn. There seems little chance that either sterling or the lira will re-enter in the near future, given that other countries led by Germany appear disinclined to bend the rules to allow weaker currencies greater support.

Also worried about the future are Ireland, Spain and Portugal, all of which hung onto their positions in the ERM only through devaluation. They would probably be in the firing line, should new ERM selling pressures emerge.

Denmark, France and Belgium saw their currencies emerge blooded but essentially unbowed by the turmoil, leaving Germany and the Netherlands the only countries in the system to emerge with their currencies unscathed.

Even so, now that all currencies still in the ERM are trading comfortably above their lower limits against the D-Mark, the EC govenors' inquiry has lost some of its initial impetus. The consensus from this study – and from a parallel inquiry by the EC monetary committee of officials from finance ministries as well as central banks – appears to be that big reforms of the system are neither desirable nor likely.

Mr Lamberto Dini, deputy governor of the Bank of Italy, says: "A number of views have been expressed [about ERM strengthing] but there is no intention of changing the existing system." Mr Dini is the chairman of yet another working party – from the Group of 10 industrial nations, which includes Japan and the US as well as European representatives – which is also examining fallout from the ERM storm. The group is doing this in the context of a wider look at world currency fluctuations and will present its report to ministers in Washington on April 30.

Much of the discussion in all three committees has been about how to ensure all the countries in the mechanism help out currencies under threat. Current ERM rules put the obligation on the strongest and weakest countries to take action, either by currency intervention or changes in interest rates.

An innovative UK proposal – under which all countries would share the profits and losses of buying weak currencies in the effort to prop them up – has found little favour. This has been on the grounds it would reduce pressures on weak countries to take avoiding action by a devaluation.

The disapproval has been led by the Bundesbank, which has taken an increasingly hard line on making sure countries stick to existing ERM rules based around D-Mark supremacy. This is the case even though a "burden sharing" arrangement might help the Bundesbank avoid a repeat of its heavy losses last autumn, arising from its spending of an unprecedented DM90bn on buying weak currencies such as lira and sterling.

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Russian banker pours scorn on credit curb

By John Lloyd in Moscow

RUSSIA: REFERENDUM

THE chairman of Russia's Central Bank has described the agreement between the government and the bank on limiting credit expansion as meaningless, and predicted it will be broken.

The agreement has been represented in meetings between the Russian government and leaders and officials of the Group of Seven industrialised countries as evidence of increasing control over the bank. The government has accused the bank of fuelling inflation and undermining reforms by issuing large credits to state enterprises.

Mr Victor Gerashchenko, the bank chairman, confirmed at the weekend he had agreed with Mr Boris Fyodorov, deputy prime minister in charge of economics and finance, that credit expansion in the second quarter be limited to an additional Rbs2,800bn-Rbs3,000bn, a 30 per cent rise.

But Mr Gerashchenko - who has clashed with Mr Fyodorov since the latter demanded his sacking – said the agreement was "really a trap" for Mr Fyodorov because he would not be able to keep government spending within these limits.

"We at the bank reckon that the budget deficit in the second quarter of this year will stand at about Rbs2,500bn. So he will need to ask us for more credits, I would think, by the middle of May."

The position of Mr Fyodorov, the cabinet minister most closely identified with economic reform since the forced resignation last December of Mr Yegor Gaidar, former acting prime minister, may also be undermined by the appointment at the end of last week of Mr Oleg Lobov as a first deputy prime minister with a brief to take charge of the economy. Mr Lobov's rank puts him above Mr Fyodorov.

Former Soviet Parliamentary chairman Anatoly Lukyanov signals victory before the referendum

Rumbles of discontent from the coal miners

By Gillian Tett in Kuzbass

WHEN President Boris Yeltsin last battled the Communist party, back in 1991, Mr Yuri Lutskii, a mine union leader from the Siberian region of Kuzbass, joined a 100,000-strong miners' strike to support the president.

Two years later Mr Lutskii is one of a growing number of miners who could turn violently against him.

For, if the Russian government sets about implementing the fiscal reform that the west is now demanding, cutting credit to inefficient enterprises and staging model bankruptcies, enterprises in regions such as the Kuzbass stand in the firing line.

Mr Yuri Shafranik, Russian energy minister, told Kuzbass leaders last week that many of the region's ageing and inefficient mines will have to be closed this year. Although details of the planned closures have yet to be revealed, the proposition leaves mine leaders such as Mr Lutskii increasingly fearful for the future – and so their support for Mr Yeltsin cools.

"If they do not develop programmes to find work for those who will lose their job, there will be a social explosion here," warns Mr Lutskii.

Viewed against Russia's spiralling budget deficit, the case for reform in the Kuzbass region is undeniable. Russia's coal industry is one of the most heavily subsidised branches of the economy.

Since the collapse of trade and transport links in the former Soviet Union have left many mines unable to sell what coal they still produce, they are left with stockpiles of unused coal, and increasing debts.

Local leaders insist the problem is that the government is demanding they operate under a market system while the price of coal, unlike many other raw materials, is still fixed at a low level by the state.

Although the government then tops this up with subsidies, and lets the mine sell some of its coal on the open market, the mine managers say this does not even cover the payroll cost, coal miners' wages in Russia being traditionally high.

The region, like many industrial centres in Russia, is trying to survive by withholding taxes from the centre, and seeking export markets. Some of the more modern mines on the region's rich seams have attracted foreign capital and some 20 per cent of the coal is now being exported.

However, the region's administration is insisting that Moscow should provide full guarantees for the thousands of miners who will lose their jobs.

Yeltsin has the edge as his referendum nears

By John Lloyd in Moscow

RUSSIA: REFERENDUM

THE final week of campaigning in the critical referendum on support for President Boris Yeltsin of Russia, on which radical reform in that country is thought to depend, opens today.

The polls show a significant – but not overwhelming – lead for Mr Yeltsin. This indicates that the result of the referendum next Sunday will set off a new round of hostilities between the president and his opponents in the Russian parliament.

Mr Yeltsin went to the historic city of Vladimir, east of Moscow, yesterday. There he took part in the Orthodox Easter procession and held talks with Alexei II, the Orthodox Patriarch.

On Friday, he had secured a carefully orchestrated chorus of support from leaders of the Commonwealth of Independent States, meeting in Minsk.

Seperate polls in Moscow, St Petersburg and in various Russian regions show between 50 and 60 per cent of those questioned willing to express their trust in Mr Yeltsin, but a smaller percentage was shown as intending to approve his economic and social policies.

A Moscow poll by the Institute of Sociology showed 35 per cent approved the economic policy, while 27 per cent did not approve and 24 per cent had yet to decide.

In St Petersburg, a poll by the Sociological Scientific Research Centre showed 56 per cent for Mr Yeltsin, with 28 per cent against – but with only 38 per cent supporting his economic programme and 39 per cent against.

Polls taken by the Gallup organisation for the Russian government, over the past week and based on group discussions, show about 60 per cent support for Mr Yeltsin, continuing support for the creation of a market economy, but substantial scepticism towards the privatisation programme.

Mr Yeltsin's supporters are calling for a "yes" vote to three of the four questions in the referendum – to trust the president, to support his economic and social policies, and to call for early elections to a new two-chamber partliament.

They are calling for a "no" vote to a question on early presidential elections.

Mr Yeltsin has said he will issue a decree tomorrow, which will lay down that only a simple majority of those voting will be required for victory to be declared in the referendum. The Russian parliament has decreed that a majority of the electorate is required – which the opinion polls show to be impossible, since only 60-65 per cent intend to vote.

Mr Sergei Filatov, Mr Yeltsin's chief of staff, said at the weekend that he understood the Constitutional Court would rule this week that the parliament's decree on the level of support needed was unconstitutional. However, Mr Yeltsin has said he will ignore any ruling of the Constitutional Court because he no longer trusts it.

● The parliament in the Russian North Caucasian republic of Chechnya has moved to impeach the republic's president, General Dzhokar Dudayev, a day after he had dissolved the legislature and declared a dusk-to-dawn curfew, according to the Interfax news agency. Mr Husain Akhmadov, parliamentary chairman, told the agency that Gen Dudayev was being impeached for "trying to carry out a state coup."

The general, a former Soviet air force commander, declared Chechnya – then part of the larger Chechen Ingushetia – independent a year and a half ago. He imposed a curfew and dissolved the parliament after two days of demonstrations in the centre of Grozny, the Chechen capital, against falling living standards.

Mr Clean goes to polls under heavy guard

By Robert Graham in Palermo

SI NO

THE voters trickle into the cavernous school building, converted into a polling station, with the solemnity of people attending Mass. Wailing sirens suddenly puncture the tranquility of this balmy Sunday morning in Palermo.

"He's coming," a plain-clothes policeman announces importantly and clears the school entrance of curious voters.

Then, amid a screech of brakes, a stocky figure steps out of an armour-plated Fiat Croma, surrounded by bodyguards. Mr Leoluca Orlando, former mayor of Palermo and founder of La Rete, the rapidly growing movement for clean government, has come to cast his vote in Italy's ninth post-war referendum.

Mr Orlando is bundled forward, scarcely given time to greet a few supporters. An implacable opponent of the Mafia, he is the politician most at risk in Sicily.

Inside an upper room, election officials respectfully check his identity card against the electoral register (one for men, another for women). He is handed eight coloured folders, a different one for each of the referendum proposals, then disappears into a small booth. Only his legs are visible.

To read the fine print of the proposals should take an average of eight minutes, but he emerges after little more than one.

The first slip he casts into the line of eight boxes is yellow – the key ballot for ending proportional representation and introducing a system of majority voting in the Senate.

Although he originally backed the referendum movement, led by former Christian Democrat Mr Mario Segni, Mr Orlando has since come out against the majority vote proposal, claiming electoral reform has been hijacked by the traditional parties.

"If the majority system is accepted," he told a packed crowd on Friday outside Palermo's decaying opera house, "in the north we will have the regions nearly all represented by the Lombard League and in the south by the [Christian Democrat] old guard. The yes vote will mean that wholly discredited people will be called on to carry out electoral reform."

Mr Orlando has acquired some odd political bedfellows in his campaign – the Mafia, closely linked to the old guard among the Christian Democrats; the neo-fascist MSI, also strong in the south; and some Socialists and elements of the former Communist party.

This assortment of protest could well lower the expected margin of victory for majority voting to below the 70 per cent predicted by some opinion polls.

Smiling nervously as he comes away from voting, Mr Orlando declines to offer a prediction: "We concentrated on getting the vote before the poll, we must now concentrate on the counting."

Once he has left, the election officials relax. They have been on duty since 6.30am, greeted the first voter at 7am, and will not be finished until 2pm today collecting the ballots of a segment of Palermo's 562,000 potential voters.

"It's a fine day – who knows how many will come? Whatever the outcome of the vote, change is on the way, even here in Sicily," says one young woman.

"We owe it to people like Falcone and Borsellino [the two anti-Mafia magistrates assassinated last year]."

Mr Paolo Borsellino was killed last July by a huge car bomb while visiting his mother on a quite Sunday not far from the school. Yesterday, the small shrine erected in the street to him and his bodyguards had a bunch of fresh flowers.

Two policemen guilty, two acquitted of beating black motorist – but the city still has social problems

Verdicts in Rodney King trial bring relief to LA

By Louise Kehoe in Los Angeles

VERDICTS in the trial of four white police officers accused in the beating of Mr Rodney King, a black motorist, brought relief to Los Angeles this weekend, after a week dominated by fear of a repeat of last year's deadly riots.

President Bill Clinton, speaking in Pittsburgh, praised the verdicts of the federal court jury, which found two of the four policemen guilty and acquitted the other two, saying they "confirmed what many felt in their hearts".

Much of the credit for maintaining law and order in Los Angeles during the trial went to new police chief Mr Willie Williams, whose efforts to "build bridges" to minority groups have won high praise from community leaders.

Yet, even as politicians and city officials took to the airwaves to celebrate a peaceful end to the trial, others were quick to point out that serious social problems remain.

Los Angeles "has been focusing on how to relieve fears. But the real question is how to raise people's hopes. Hopes come in the form of jobs, and health care and education and justice," said Rev Jesse Jackson, the prominent national black leader. "If we can have a plan to rebuild Russia, it is time to have a plan to rebuild Los Angeles."

Some 40,000-50,000 people were left unemployed by last year's riots, sparked by outrage when the four officers were acquitted in a state court. "Hundreds and hundreds of small latino and black-owned businesses remain nothing but ashes and ruins," says Mr Fernando Oaxaca of the Latino Coalition for a New LA.

"Any effort to reconcile our differences and rebuild Los Angeles cannot be based on the outcome of this or any other trial," said Mr Terree Bowers, the US attorney in charge of the prosecution. "Our renaissance, if it is to occur... will take months, if not years, of hard and co-operative work."

With this agenda, LA voters will go to the polls tomorrow to elect a new mayor to replace Mr Tom Bradley, who is retiring after 20 years in office. Also on tomorrow's ballots is a measure that would raise property taxes to pay for 1,000 additional police officers.

However, the turnout is expected to be extremely low, with the election all but eclipsed by the trial. Two dozen candidates are registered, and none is likely to win the 50 per cent of the vote required for election, so a run-off vote in June is likely.

In the meantime, many fear that the appeal against this weekend's verdicts, as well as the expected trial this summer of the black youths seen by millions of television viewers beating Reginald Denny, a truck driver, during last year's riots, could once again inflame racial tensions in the city.

At the First African Methodist Episcopal Church, a rallying point for the black community in Los Angeles since the riots, Reverend Cecil Murray concluded: "We are not going to have peace at last, but peace for the moment."

Right: Black leader Jesse Jackson (right) and Rev Cecil Murray embrace after hearing the verdicts

Young US leader shatters old Japanese trade certainties

By Jurek Martin in Washington

THE Japanese, who understand symbols, used to feel rather proud when Mr Yasuhiro Nakasone, prime minister from 1982 to 1987, represented them in international deliberations. At sessions with President Ronald Reagan he had plenty to say, forging apparently genuine first-name relationships with the US administration, appropriate for a member of the statesmen's club. At G7 summits he was equally vocal and often was not even the shortest participant.

The contrast with Friday in Washington could hardly have been greater. There, captured on global television, was the young and vigorous 46-year-old President Bill Clinton towering over his diminutive Japanese counterpart, 73-year-old Kiichi Miyazawa, a reflective man but the last, and therefore the weakest, of his generation of Japanese politicians to become prime minister.

Worse than the symbolic physical contrast between the two men, Mr Clinton was lecturing Mr Miyazawa in a way that no US president has spoken publicly to a Japanese prime minister in living memory. Here was a president born after the last war telling a man old enough to have represented his country at the San Francisco peace conference in 1951 that the world had changed, the US was changing and that Japan would have to change with it.

This is serious stuff for Japan. The US has been the bedrock of its international constellation since 1945. More particularly, inside the relationship, there was an absolute Japanese assumption, even as it became economically mighty, that the man in the White House was their ultimate protector, no matter what retaliation was threatened by Congress, no matter how many Japanese radios were smashed on the lawns of Capitol Hill and what American public opinion felt about Japanese takeovers of US institutions.

Mr Clinton was careful not to throw all the co-operative fruits of the last two generations out of the window. He emphasised US commitment to regional Asian security, never threatened to withdraw US troops from Japan or South Korea, and was complimentary about Japan's role as G7 chairman in putting together the Russian aid package.

But he made it equally clear that, as far the US was concerned, the end of the cold war had altered the nature of US perception of its own national security. "The cold war partnership between our two countries is outdated," he declared. "We need a new partnership based on a longer-term vision and above all based on mutual respect and responsibility."

For Mr Clinton, who does not consider himself a protectionist as classically defined, the foundation is a new trade and economic relationship. It means a reduction in Japan's trade surplus, if necessary by agreements on specific sectors, replete with numerical targets. It also implies a continuous engagement by Japan in promoting global economic growth beyond the series of emergency stimulus packages that Tokyo has frequently contrived to produce as a result of US pressure.

Mr Miyazawa had conceded that "gaiatsu" (foreign pressure leading to Japanese concessions) was "perhaps part of our culture".

But that sometimes leisurely practice now runs squarely up against a US government disinclined to be patient or play ritualistic games. In Tokyo last week, even Mr Warren Christopher departed from his nominal diplomatic brief as secretary of state to press his Japanese opposite numbers on specifics such as the Japanese personal computer market.

The US impatience on bilateral trade and with Japan's passivity in the Uruguay Round negotiations may also extend to a growing intolerance with the introspection of the Japanese political system. The ruling Liberal Democratic party's domestic problems are well understood in Washington, but attract little sympathy.

If "change" is the present leitmotif of US politics, then the inability to adjust in the Japanese system becomes all the more difficult to accept, especially when the US can see that there is a new, rising generation of more outward-looking Japanese politicians apparently hungry for power but still consigned to the waiting rooms.

Certainly, Mr Miyazawa has left Washington, like none of his recent predecessors, with presidential fleas in his ear. For a country like Japan, always comfortable in certitudes, this is a very disturbing message.

Japan's prime minister, Mr Kiichi Miyazawa, yesterday returned to Tokyo after two days of talks in Washington to a chorus of concern about the prospects for Japan's economic relations with the US on both trade and macro-economic issues, Charles Leadbeater writes from Tokyo.

Most business leaders raised doubts about the wisdom of US demands for quantitative indicators to measure foreign access to segments of the Japanese market. There are also concerns that the US is embarked on a strategy to talk up the yen, to help choke off the growth of Japan's trade surplus with the US.

Mr Miyazawa's visit confirmed worries in Japan that the Clinton administration will be more assertive than its predecessor in pressing for measurable results in reducing the trade deficit.

Mr Miyazawa and President Bill Clinton on Saturday agreed to set up a joint panel to design a forum for discussing ways to reduce Japan's trade surplus. Mr Clinton stressed such talks would have to lead to measurable results in opening the Japanese market to competitive US producers.

He also noted that a strengthening of the yen against the dollar would help to reduce the Japanese surplus and that Japan's recent $117bn stimulus package was only a first step in resuscitating the flagging Japanese economy.

Showdown in US-EC procurement row

THE denouement of the latest US-EC feud over government procurement is scheduled to come today and tomorrow during the third meeting between the top trade officials, Mr Mickey Kantor and Sir Leon Brittan, Nancy Dunne writes from Washington.

Either Sir Leon, the EC commissioner for trade, will agree to waive the offending Article 29 of the EC Utilities Directive, which the US argues makes it more difficult than ever for US companies to win telecommunications and heavy electrical equipment contracts in Europe.

Or Mr Kantor, US trade representative, will ban EC companies from bidding on various US government procurement contracts, a retaliation estimated to cost $45m-$50m a year. Furthermore he will proceed to the General Agreement on Tariffs and Trade to complain that the offending article extends government rules to private sector activities, a Gatt violation.

The real contest between them has been and continues to be over the shape of the negotiations. The US insists the subject is utilities procurement – telecommunications and power equipment. The EC wants to bring in the entire body of Buy America provisions, which apply to defence, transportation, airports, waterways and other services.

The US complains that the EC is throwing in the iniquities of American state governments, while ignoring the discriminations of its own sub-federal procurement agencies.

In this week's face-off, Mr Kantor is in the enviable position of being unable to lose. He is seeking, as an "interim" agreement, a real opening of the $15bn-$25bn a year EC utilities procurement market. This would be achieved by a waiver of Article 29 upon certification that the US gives EC companies "comparable" access in the market.

If he fails to get the waiver and institutes the threatened sanctions, Mr Kantor will have demonstrated his grit to Congress. This could leave the administration free of the kind of congressional initiatives foisted on previous presidents, who seemed more reluctant to act.

The US does not argue that it is without sin in discrimination in the awarding of its government procurement contracts. Its transgressions are rooted in the Buy American Act of 1933, discriminating against foreign companies in federal, state and local bidding.

In fact a more unbiased source than the EC – a Gatt dispute settlement panel – months ago found that the US government had violated its multinational obligations by applying a Buy American provision to the procurement of a sonar mapping system by the National Science Foundation. The US, which complains about others blocking Gatt panel reports, has yet to adopt the conclusion itself.

However, both US and EC procurement markets are riddled with domestic preferences. Comparisons are tricky because of systemic differences between the Community, where publicly-owned utilities predominate, and the US, where most companies are privately owned.

US officials say they have "incontrovertible evidence" that foreign companies have gained at times great chunks of the US government utilities market. However, this is not all that much, as 92 per cent of the US market is in the private sector. And if Asian companies have been better able to overcome the 6 per cent bidding preference given to American companies under Buy American laws, then the US still offers the EC twice as many "bidding opportunities" in overall government procurement contracts. According to the US figures, EC companies get to bid on $16.8bn (£11bn) in the US market, compared with $7.8bn for American companies in the EC market.

All these numbers have been presented to EC officials in talks leading up to this week's showdown. If Sir Leon agrees to the waiver of Article 29, he will get US agreement to the joint study he has proposed of the US and EC procurement markets. It does not matter that this proposal was more probably meant to delay than hasten a settlement; Mr Kantor has taken it up as a route to the multilateral negotiating table.

US officials say an "interim" agreement will have a salutary effect on the US mood as the two economic powers continue to work on an expanded market access package to wrap up the Gatt Uruguay Round.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout: other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.2	99.4	76.5
1987	105.6	100.7	103.8	96.7	65.4
1988	109.9	103.2	106.9	98.1	61.8
1989	115.2	108.5	110.0	98.9	65.5
1990	121.5	113.8	113.8	100.9	60.9
1991	126.6	116.3	117.3	103.5	
1992	130.4	117.7	120.1	103.2	
2nd qtr.1992	3.1	1.3	2.9	-0.5	
3rd qtr.1992	3.1	1.6	2.3	-0.2	
4th qtr.1992	3.0	1.6	2.0	-1.0	
1st qtr.1993	3.2	1.9			
April 1992	3.2	1.1	3.4	-0.6	n.a.
May	3.0	1.1	2.6	-0.7	n.a.
June	3.1	1.6	2.8	-0.3	n.a.
July	3.2	1.7	1.7	-0.2	n.a.
August	3.2	1.6	2.6	-0.4	n.a.
September	3.0	1.6	2.5	0.3	n.a.
October	3.2	1.7	1.7	-0.4	n.a.
November	3.0	1.4	1.7	-1.0	n.a.
December	2.9	1.6	2.5	-0.7	n.a.
January 1993	3.3	1.8	2.5	-1.8	n.a.
February	3.2	1.8		-1.2	n.a.
March	3.1	2.0			n.a.

JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	100.6	95.3	101.4	103.3	131.0
1987	101.2	92.5	103.1	100.6	131.5
1988	102.2	92.3	107.8	96.2	140.3
1989	104.9	94.2	114.0	96.1	132.2
1990	108.2	95.7	120.1	98.2	114.8
1991	111.6	96.6	124.4	101.6	
1992	113.9	95.8	126.1	110.5	
2nd qtr.1992	2.6	-1.0	2.4	8.7	
3rd qtr.1992	2.0	-0.9	1.0	8.7	
4th qtr.1992	0.9	-1.2	0.2	9.4	
1st qtr.1993	1.2				
April 1992	2.8	-0.9	1.3	8.7	n.a.
May	2.3	-0.9	1.1	11.8	n.a.
June	2.5	-1.0	3.6	5.7	n.a.
July	2.0	-0.8	2.3	8.8	n.a.
August	1.8	-0.9	-1.5	11.4	n.a.
September	2.2	-0.9	1.4	5.8	n.a.
October	1.2	-1.1	1.5	8.6	n.a.
November	0.6	-1.1	1.5	9.4	n.a.
December	0.9	-1.2	-0.7	10.3	n.a.
January 1993	1.0	-1.1			n.a.
February	1.2				n.a.
March	1.2				n.a.

GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	103.8	103.8	110.2
1987	100.1	95.1	108.0	107.1	123.9
1988	101.4	96.2	113.0	106.8	125.3
1989	104.2	99.3	117.3	107.9	121.0
1990	107.0	101.0	123.8	110.4	125.0
1991	110.7	103.4	131.8	114.9	
1992	115.1	104.8			
2nd qtr.1992	4.5	2.0	n.a.	3.8	
3rd qtr.1992	3.5	1.0	n.a.	6.1	
4th qtr.1992	3.7	0.5	n.a.		
1st qtr.1993	4.3		n.a.		
April 1992	4.6	1.9		5.4	n.a.
May	4.6	2.0		1.7	n.a.
June	4.2	2.0		4.3	n.a.
July	3.3	1.1		8.9	n.a.
August	3.5	1.1		5.2	n.a.
September	3.6	0.8		4.3	n.a.
October	3.7	0.5		7.8	n.a.
November	3.7	0.5		9.4	n.a.
December	3.7	0.5			n.a.
January 1993	4.4	0.8			n.a.
February	4.2	0.5			n.a.
March	4.2				n.a.

FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	102.5	97.2	104.5	101.5	102.3
1987	105.9	97.8	107.8	103.0	102.6
1988	108.8	102.8	111.1	104.3	98.3
1989	112.6	108.4	115.4	105.5	92.3
1990	116.4	107.1	120.6	110.0	95.7
1991	120.0	105.8	125.8	114.0	
1992	123.3	104.0	130.1		
2nd qtr.1992	3.1	-1.1	n.a.	2.6	
3rd qtr.1992	2.7	-0.9	n.a.		
4th qtr.1992	2.2	-1.5	n.a.		
1st qtr.1993	2.1		n.a.		
April 1992	3.1	n.a.	–	n.a.	n.a.
May	3.1	n.a.	–	n.a.	n.a.
June	3.0	n.a.	3.8	n.a.	n.a.
July	2.9	n.a.	–	n.a.	n.a.
August	2.7	n.a.	–	n.a.	n.a.
September	2.6	n.a.	3.5	n.a.	n.a.
October	2.4	n.a.	–	n.a.	n.a.
November	2.1	n.a.	–	n.a.	n.a.
December	2.0	n.a.		n.a.	n.a.
January 1993	2.1	n.a.		n.a.	n.a.
February	2.1	n.a.	–	n.a.	n.a.
March	2.2	n.a.	3.6	n.a.	n.a.

ITALY

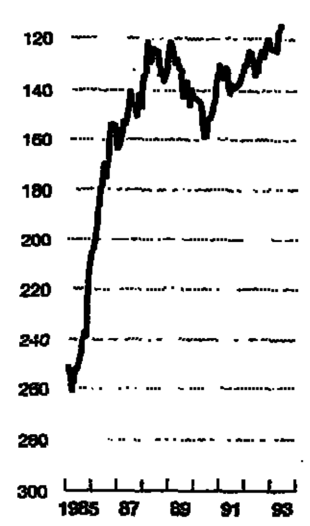
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.2	104.8	102.7	101.5
1987	111.0	103.2	111.6	105.5	102.3
1988	116.5	106.8	118.4	109.7	101.6
1989	124.2	113.1	125.6	112.4	107.2
1990	131.8	117.8	134.7	118.9	113.7
1991	140.3	121.7	147.9	131.3	
1992	147.7		155.9		
2nd qtr.1992	5.5	2.0	6.0	5.0	
3rd qtr.1992	5.2	1.9	3.7		
4th qtr.1992	4.8		2.9		
1st qtr.1993	4.3				
April 1992	5.5	1.8	8.8	n.a.	n.a.
May	5.7	2.1	4.6	n.a.	n.a.
June	5.4	2.1	4.7	n.a.	n.a.
July	5.4	1.9	4.0	n.a.	n.a.
August	5.2	1.9	3.5	n.a.	n.a.
September	5.1	1.9	3.7	n.a.	n.a.
October	4.9	2.0	4.1	n.a.	n.a.
November	4.8	2.2	2.1	n.a.	n.a.
December	4.6		2.4	n.a.	n.a.
January 1993	4.2			n.a.	n.a.
February	4.4			n.a.	n.a.
March	4.2			n.a.	n.a.

UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	103.4	104.3	107.7	104.5	93.3
1987	107.7	108.3	116.3	105.9	91.3
1988	113.0	113.2	126.2	108.9	97.5
1989	121.8	119.0	137.2	113.6	96.4
1990	133.3	126.0	150.1	123.2	102.3
1991	141.2	133.0	162.4	130.3	
1992	146.4	138.0	173.1	132.4	
2nd qtr.1992	4.2	3.6	5.9	1.2	
3rd qtr.1992	3.6	3.5	6.2	2.0	
4th qtr.1992	3.0	3.4	5.7	-0.2	
1st qtr.1993	1.6	3.7			
1992 April	4.3	3.8	5.0	-0.5	n.a.
May	4.3	3.5	7.0	2.4	n.a.
June	3.9	3.6	5.9	1.7	n.a.
July	3.7	3.6	6.2	3.0	n.a.
August	3.6	3.4	6.5	1.8	n.a.
September	3.6	3.4	5.7	1.1	n.a.
October	3.6	3.3	6.3	0.2	n.a.
November	3.0	3.3	5.6	0.0	n.a.
December	2.6	3.5	5.4	-0.8	n.a.
1993 January	1.7	3.6	5.0	-2.2	n.a.
February	1.8	3.7			n.a.
March	1.9	3.7			n.a.

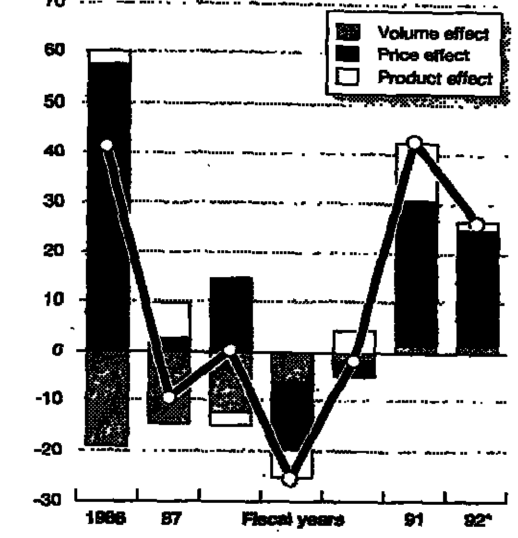
Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: IMF real effective exchange rate based on relative unit labour costs (non-normalised). A fall in the index indicates improved international competitiveness.

Stronger Yen...



Source: Datastream

...bigger trade surplus



Source: Bank of Japan Quarterly Bulletin, Feb '93 *Apr-Nov, annualised

Appreciating Japan's soaring exchange rate problem

THE POLITICAL economy of the yen-dollar exchange rate remains mystifying, as the events of the past week demonstrate. Surely, with the US increasingly hot under the collar over Japan's rising trade surplus, the surge in the yen to record levels against the dollar ought to be a cause for celebration in Tokyo? Nothing could be further from the truth.

Disapproving noises about the yen's rise have been seeping out in recent months from the Ministry for International Trade and Industry, the Liberal Democratic party and, recently, from Bank of Japan governor Yasushi Mieno. Yesterday finance minister Yoshiro Hayashi joined the chorus, declaring that the appreciation had been too speculative and was having "a negative effect on the economy".

It is easy to see why Miti is worried. Japanese companies are troubled by weak domestic demand and squeezed profit margins. The appreciating exchange rate, already 10 per cent higher against the dollar since the beginning of this year, compounds these domestic difficulties by undermining companies' ability to divert production abroad. With 60 per cent of export contracts denominated in dollars, a stronger yen raises the dollar price of Japanese exports in foreign markets while reducing the yen prices of foreign imports into Japan. The Economic Planning Agency calculates that each 10 per cent yen rise cuts half a percentage point from Japanese gross national product.

Harder to understand are the concerns of the Ministry of Finance and the Bank of Japan. Economically, an appreciating currency is the inevitable counterpart to Japan's growing trade surplus, needed in order to persuade investors to provide the capital outflow to balance the trade surplus. Politically, a higher yen ought to ease tension by meeting the US administration's demands for tangible steps to reduce the trade surplus. Financially, a stronger currency is a good way to keep a lid on inflation by reducing import price pressures. The yen appreciation is already pleasing inflation hawks: wholesale prices fell by 0.5 per cent in March, and were 2.3 per cent lower than a year ago.

The problem is that the short-term effects on the trade surplus of a strong yen make the trade surplus bigger and so worsen Jaoan's international relations. The reason is the close relationship between changes in the yen-dollar exchange rate and changes in the trade surplus, as the chart taken from the Bank of Japan's latest quarterly bulletin reveals.

When the yen appreciated in 1985 and 1986, the trade surplus grew too; when the yen weakened throughout 1989 and 1990, the trade surplus contracted; the rise in the yen since then has been accompanied by renewed growth in the surplus. For, while a higher exchange rate makes Japanese exports more expensive and thus should reduce volumes, it also raises the dollar value of each export unit sold.

The chart breaks the change in the trade surplus into three components: the change in the volume of exports and imports, changes in the price of imports and exports, and changes in the product composition of exports and imports. Exchange-rate driven price effects tend to dwarf the volume effect, at least in the short run. While the rise in the yen between 1985 and 1987 cut export volumes and raised import volumes throughout the rest of the decade, the price effect of the yen's appreciation swamped the volume changes.

Little wonder the Japanese are worried about the yen's continued rise. The rise in the dollar value of the trade surplus over the past two years is almost entirely the result of the yen's appreciation since 1990, while the latest trade figures show a monthly surplus in March of $13.8bn, 26 per cent up on the previous year. In time a stronger yen should should reduce Japan's surplus by boosting import values. But the dollar value of the surplus is likely to rise before it falls. President Clinton was right to welcome the yen's appreciation at last week's summit with Japanese prime minister Kiichi Miyazawa. But if he wants results, Mr Clinton will have to wait.

Edward Balls

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PUBLIC NOTICES

MONOPOLIES AND MERGERS COMMISSION

MMC INQUIRY INTO THE SUPPLY OF HISTORICAL ON-LINE DATABASE SERVICES

The Monopolies and Mergers Commission have been asked to investigate whether a monopoly situation exists in the supply in the United Kingdom of certain text retrieval services, namely the provision of access to historical on-line databases containing archival information, including newspaper articles, on business and financial subjects.

The Commission will be looking, among other matters, at whether the exercise of its copyright in such material by any party is inhibiting effective competition in the market for historical on-line databases and disadvantaging new entrants.

Any person or organisation wishing to offer evidence in relation to this inquiry (or to obtain a copy of the terms of reference) should write as soon as possible to: The Reference Secretary (HOLD), Monopolies and Mergers Commission, New Court, 48 Carey Street, London WC2A 2JT. Quoting ref HOLD/FT.

Mandela eases himself into S Africa's media spotlight

Patti Waldmeir witnesses a profound shift in the balance of power

AT times of great national crisis, South Africans are accustomed to seeing their leader address them on national television.

But now, as the country faces perhaps its greatest political crisis to date, the face on prime time television screens is not Mr F W de Klerk, the president, but Mr Nelson Mandela, leader of the African National Congress.

When Mr Chris Hani, the guerrilla leader, was assassinated, Mr Mandela broadcast a live address to appeal for calm. On the eve of last Wednesday's national day of mourning, Mr Mandela addressed the nation at 7pm, 8pm and 11pm. For his part, Mr de Klerk issued a statement from his seaside holiday home, via his press secretary resting at another holiday resort.

Mandela: de Klerk cannot rule South Africa without his help

There can be no clearer evidence of the profound shift which has occurred in the balance of power between white and black.

The ruling National Party still insists that it will never "hand over power" to blacks; but most of their supporters think they have already done so.

Gone are the days when Mr P W Botha, the former president, would simply declare a nationwide state of emergency and detain 50,000 people to deal with a crisis.

Mr de Klerk's language over the past few days has recalled the hardline rhetoric of the finger-wagging former President. But he cannot match him in action.

The fact is that Mr de Klerk cannot rule South Africa without Mr Mandela's help. With his dark threats against "radicals" (which he knows he cannot carry out without sparking civil war) and his frantic warnings of a descent into chaos, Mr de Klerk has cut a somewhat pathetic figure in recent days. He may be President, but Mr Mandela is South Africa's leader.

This was never more apparent than when the ANC leader dominated TV screens on Tuesday evening (furious that his address had been cut in half for the 8pm newscast, he insisted on – and was granted – the right to broadcast again in full at 11pm).

Speaking with all the dignity and gravitas of the tribal African chieftain which he is, Mr Mandela tried to use his eloquence and authority to heal the racial rift caused by the murder of one of black South Africa's greatest heroes.

"Tonight I am reaching out to every single South African, black and white, from the very depths of my being," he said. He praised the white woman who had risked her life to identify Mr Hani's assassin and condemned those who would "plunge our country into another Angola."

"Now is the time for all South Africans to stand together against those who, from any quarter, wish to destroy what Chris Hani gave his life for – the freedom of all of us."

Mr de Klerk's statements, by contrast, have been clearly partisan in nature, aimed at his white constituents, who have been outraged and terrified by the violence which has followed the assassination. He has showed little understanding of the anger and loss felt by the black majority; his condolences lacked sincerity.

Mr de Klerk was no doubt worried that too sympathetic a response would antagonise whites, who largely viewed Mr Hani as a communist demon. But for a man who portrays himself as the natural leader of a multi-racial South Africa, he has showed little ability to bridge the racial gulf.

Mr Mandela's leadership abilities are also under severe strain. Dealing with large, young, militant crowds is not his forte. His style of public speaking is pedantic rather than charismatic. And he will have further enraged whites by allowing his more militant ANC colleagues to persuade him that the ANC should carry on mass protest actions for another six weeks.

His task is difficult: he must be seen to respond to the anger of militant youths while keeping them under control. It will take a rare man to tread that tightrope for a further six weeks.

Arab delegations force delay in Mideast talks

By Roger Matthews, Middle East Editor

ARAB delegations to the Middle East peace negotiations have forced a week's delay in the opening of the ninth round of talks which had been due to begin in Washington tomorrow.

After a weekend of intensive contacts, Arab diplomats said that a new target date of April 27 had been set for the talks, in the hope that Israel could be persuaded to ease its position on permitting home the nearly 400 Palestinian deportees who were expelled to southern Lebanon in mid-December.

The Palestinian delegation has also been angered by Israel's decision three weeks ago to seal off the occupied West Bank and Gaza Strip, thereby denying tens of thousands the opportunity to get to their workplaces. The Israeli action, reconfirmed by the cabinet yesterday, was condemned by the Palestinians as another obstacle to resumption of talks.

After discussing the issues in Damascus on Friday and Saturday, members of the four delegations flew to Cairo yesterday for a meeting of the Arab League. Mr Farouk al-Shara, Syrian foreign minister, told Mr Warren Christopher, US secretary of state, that the four Arab delegations would be unable to meet the April 20 date set for a resumption.

Mr Yassir Arafat, the chairman of the Palestine Liberation Organisation, said in Tunis that he was still not certain whether the new April 27 date could be kept.

Syria, Jordan and Lebanon have all expressed a desire to resume negotiations with Israel as soon as possible. But they also wish to preserve a common Arab position and accept that the Palestinians have been put in a very difficult position by Israel's actions in the occupied territories.

Extremists continued efforts to sabotage the process yesterday when an Israeli lawyer was killed in the Gaza Strip.

See feature: Middle East talks

Egyptian minister sacked

By Roger Matthews, Middle East Editor

PRESIDENT Hosni Mubarak of Egypt yesterday sacked his minister of the interior following mounting criticism of the violent response by the security forces to the recent wave of attacks by Islamic extremists.

Mr Mohammed Abdel-Halim Moussa had ordered large-scale police assaults against suspected extremist hideouts in upper Egypt and in the Cairo district of Imbaba during which dozens of people were killed or injured. He is replaced by another former governor of Asyut, Mr Hussein Mohammed al-Alfi.

Mr Mubarak has repeatedly blamed Iran for the terrorist attacks which have cost Egypt hundreds of millions of dollars in lost tourist revenue.

In a recent interview he claimed that the authorities knew the identities of the extremists and would eradicate the problem within a few months.

The Egyptian leader also defended the tactics of the security forces and denied that detainees had been ill-treated.

The sacking of the interior minister may signal a less confrontational government approach to the problem of Islamic fundamentalism. Groups of liberal, secular professionals have warned the president that his policies were forcing Egyptians into an intolerable choice between an incompetent government and a radical Islamic alternative.

In another appointment, Mr Youssef Boutros Ghali, an economist and a relative of the UN secretary-general, has been appointed a minister of state, recognition of his key role in negotiations with the International Monetary Fund.

Ireland in drive to halve 20% unemployment rate

By Tim Coone in Dublin

MR Ruari Quinn, Ireland's minister for enterprise and employment, believes Ireland's unemployment rate can be halved by the end of the decade from 20 per cent to around 10 per cent, as a result of policies being manoeuvred into place by the Fianna Fail-Labour coalition government.

These include renewed emphasis on promoting indigenous Irish industry, on targeting small businesses with venture capital funding, on legislating for new investment products which will encourage equity investment by fund managers in Irish industry, "and massive investment in improving the skills base of the workforce," he said.

Until January Mr Quinn was the Irish Labour Party's spokesman on economic affairs. Labour's breakthrough at last November's election gave it leverage to negotiate for powerful positions in the coalition government. One of those was Mr Quinn's, which merged the ministerial post of labour with those of industry and commerce.

"We have merged the two departments because we want to do away with the old adversarial approach in the process of wealth creation and replace it with a social partnership approach. We want agreement between industry, the unions and government on a long-term strategy – so that any foreign investor can come here to Ireland and knock on the door of any of the three and know that we are all talking the same langauage," he said.

Ireland's past three finance ministers, starting with Mr Ray MacSharry in 1987, all adopted this approach, firstly through the Programme for National Recovery, and later through the Programme for Social and Economic Progress. The public sector pay elements of this agreement will expire at the end of this year. Both programmes have sought to lay down macro-economic parameters to attain price stability, reduce government debt and to improve incomes through economic growth and gradual tax reductions. They have been largely successful. Ireland's economy has outperformed most EC partners over the past five years in GDP growth.

The cost, however, has been heavy in unemployment. Labour's success at the polls last year was largely on the back of the lengthening dole queues and the expectation that Labour would do something to reverse the trend.

"Our strategy is to build on a skill-based workforce. We are no longer a country of low-cost labour, and we don't aspire to return to that. Low-cost manufacturing jobs are drifting out of Europe anyway. We want intellectual skills-based industry here, such as electronics, pharmaceuticals, telemarketing and software. We shall continue to promote foreign investment, but our central focus will be on building and strengthening indigenous companies," he said.

Where will the funding come from to finance these plans? Mr Quinn says that the I£8bn (£8bn) in EC structural and cohesion funds due to be paid to Ireland over the next seven years will go a long way to help finance improvements. But he hopes the bulk will come from new equity investment.

Spain may be heading for hung parliament

SPAIN'S general election could produce a hung parliament on June 6, according to the first opinion polls to be published since Socialist Prime Minister Felipe Gonzalez called a snap election a week ago, Tom Burns writes from Madrid.

A poll by the Madrid newspaper El Mundo puts the centre right opposition Partido Popular (PP) narrowly ahead of the Socialist Workers Party (PSOE), while a second one in the Barcelona daily El Periodico has the ruling party winning by a slender margin. A third opinion poll, published by Madrid's YA newspaper, has the PP and the PSOE exactly equal each with 35 per cent of the total vote.

All three surveys forecast a hung parliament.

EC to unveil growth package

The European Commission will today report that joint efforts by EC member states to stimulate their faltering economies have produced a Community-wide growth package valued at Ecu35bn (£27.8bn), writes Lionel Barber from Brussels.

The growth package will be unveiled at a meeting of EC finance ministers in Luxembourg. The aim is to trumpet Europe's contribution to a world economic recovery ahead of the G7 industrialised nations' meeting in Tokyo, a senior EC official said.

French approve of Balladur as PM

Mr Edouard Balladur has won the approval of 56 per cent of French voters in his first three weeks as prime minister, according to the latest IFOP opinion poll, in the highest approval rating achieved by any premier in the Fifth Republic at the start of a term of office, Alice Rawsthorn writes from Paris.

President François Mitterrand has also seen his approval rating rise sharply, from 24 per cent a month ago to 34 per cent now.

One factor behind Mr Balladur's popularity is his conciliatory approach to the potentially prickly problem of ruling France in cohabitation between his centre-right coalition government and the socialist President Mitterrand.

Angola talks

Angolan government delegates returned to the peace table yesterday after consulting President Jose Eduardo dos Santos on giving rebels more representation in a unity government, AP reports from Abidjan, Ivory Coast. Gen Higino Carneiro said talks with Mr dos Santos in the Angolan capital, Luanda, went "very well." He would not elaborate.

Donors 'undermine their efforts' by tying aid to companies at home

AID donors are undermining their own efforts to help developing countries by tying their assistance to requirements that goods or services be *procured from* companies in their own countries, the World Bank warns, George Graham reports from Washington.

Such donors, the bank believes, could generate another $4bn a year of benefits for the third world by untying their aid.

Tied aid is meant to help domestic employment and exports, but may have little effect in the donor country, the bank argues.

"The lobbying of individual sectors or business firms in the donor country for directed subsidies is a more rational, if less laudable, explanation for tying," it concludes, in its annual review: Global Economic Prospects and the Developing Countries.

For the recipient country, however, the direct cost may be more than 15 per cent of the aid given.

"Untying all aid flows would generate economic benefits to developing countries of as much as $4bn per year, which equals one-fifth of the nominal increase in aid flows over the past decade," the World Bank says.

Some improvement has occurred: 44 per cent of aid was tied in 1989, and 7 per cent partially untied, compared with 48 per cent tied and 12 per cent partially untied in 1977-1979.

A further improvement in the percentage is likely as a result of the agreement last year by industrialised nations to abide by new guidelines by way of limiting the use of mixed credits, which combine aid, export credits and non-concessional loans.

Painful reforms should yield surge in third world's growth

George Graham analyses the latest World Bank report on prospects for developing countries – with east Asia leading the way

THE WORLD Bank is forecasting a surge in developing countries' growth rates over the next ten years, as a result of the often painful economic reforms they have undertaken.

Growth in the developing world is projected at 4.7 per cent a year over the period 1992-2002, compared to 2.7 per cent in 1982-1992, according to the Washington-based multilateral development bank's annual forecasts.*

Gross domestic product per capita is expected to grow at 2.9 per cent a year – more than three times the 0.8 per cent rate of the last ten years.

Mr D C Rao, the bank's acting senior economist, said much of the improvement reflected the transformation of economic policy in the developing countries in recent years: trade rules have been liberalised, the policy of import substitution abandoned, overvalued exchange rates corrected, public finances brought under control and the state's role in industry and commerce reduced.

These policy changes have led to a "remarkable resurgence" of private capital flows to the developing countries, with foreign direct investment climbing by 50 per cent over the last two years to $38bn in 1992, with portfolio investment growing even more explosively to $34bn last year.

The World Bank expects growth in the developing world to be led by east Asia, where growth is projected to slow slightly over the next decade but to remain at the high level of 7.3 per cent a year. East Asia now accounts for a quarter of output in the developing world, Mr Rao said. Over the next ten years, its weight is likely to rise to one third.

In Latin America, the World Bank says growth of nearly 4 per cent a year is achievable over the next ten years, compared with a rate of 1.9 per cent a year in 1982-92, if countries such as Chile, Mexico and Argentina persevere with their domestic policies and if Brazil adopts credible policies of macro-economic stabilisation.

Sub-Saharan Africa could see growth rise from 2.0 per cent over the last ten years to 3.7 per cent in the decade ahead, largely as a result of improvements the World Bank anticipates in prices of commodities such as coffee and cocoa.

If their fundamental reforms succeed, the national economies of eastern Europe and central Asia should stop contracting and start to grow at a rate of 2.1 per cent for the next ten years, attaining a trend rate of 4 to 5 per cent in the second half of the decade.

Mr Rao cautioned that the World Bank's forecasts were heavily reliant on the assumption that the recovery that now appeared to be consolidating itself in the US would spread to the rest of the G7 leading industrial nations, with a prospect of sustained growth in the developed world over the medium term, combined with lower real interest rates.

The forecasts also assume faster growth in world trade, a stabilisation in real non-oil commodity prices, and a continuation of policy improvements, especially in Latin America.

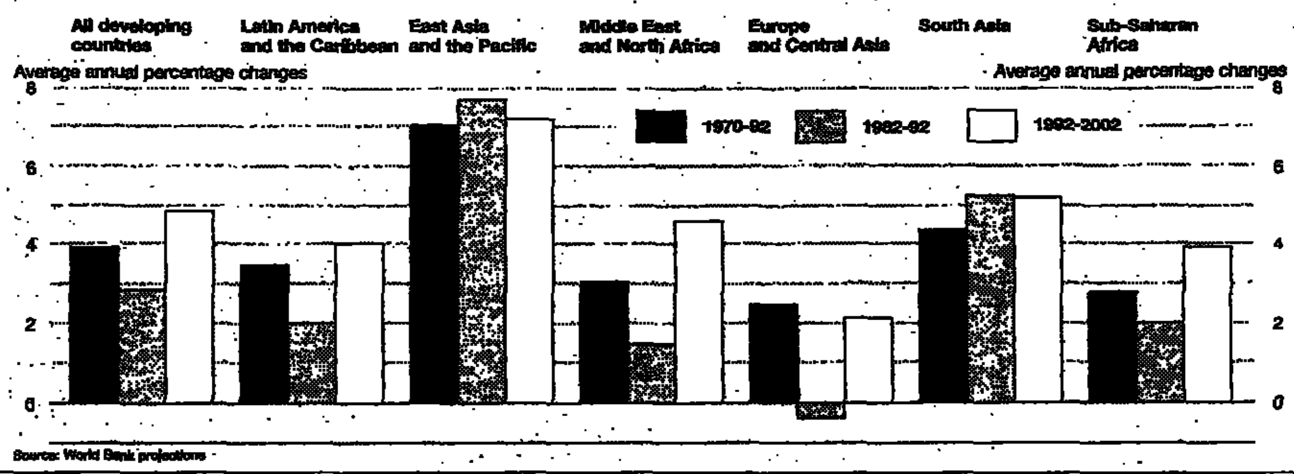
"A more pessimistic set of assumptions would halve the rate at which developing countries' per capita income grows to about 1.3 per cent per year," Mr Rao said, warning that this would mean an increase of 80m in the number of people living in poverty.

One of the most serious threats to the economic prospects of the developing countries is the continued failure to make progress in the Uruguay Round trade liberalisation.

Countries such as Bangladesh and Sri Lanka are hit by tariffs averaging 7 to 8 per cent on their exports to developed countries and by non-tariff barriers on 60 to 80 per cent of the goods they export, while expanding market opportunities are also critical for the prospects of the reforming economies of eastern and central Europe.

Global Economic Prospects and the Developing Countries; The World Bank, 1818 H Street NW, Washington DC 20433, USA.

GDP growth prospects for developing country regions



Source: World Bank projections

Help not reaching projects in Poland

By Christopher Bobinski in Warsaw

JUST a quarter of the $8.6bn of western financing pledged to Poland in the last three years, or $2.1bn, had reached public and private investment projects by the end of last year, according to Poland's Central Planning Office (CUP).

A CUP study has also pointed to the tying of western government loans to purchases of equipment from specific countries as the reason for the meagre draw-down on the $6.2bn of funds committed in support of Poland's economic transformation programme.

Of the $5.3bn of bilateral credit pledged by western governments since 1990, $3.6bn was made available and just $268m spent, the report says.

In terms of tied loans, Italy was a star performer, with 78 per cent of the $468m it said it was prepared to lend having been assigned to concrete projects. But only 1.5 per cent of Australia's $200m credit, which can only be used on Australian wool and hides, was spent.

World Bank disbursement has also been delayed, with $2.6bn promised and $2.2bn committed, yet only $775m spent. Mr Ian Hume, head of the World Bank office in Warsaw, said the delays came down to, "in essence, an anti-investment climate" in Poland caused by the struggle to maintain tight monetary policies with high interest rates.

The Ecu224m (£178m) pledged by the European Bank for Reconstruction and Development to public sector projects has yet to be spent. The study did not analyse the EBRD's private sector projects in Poland, which amount to Ecu310m, but their draw-down should be better. Two-thirds of this sum has been committed to western companies such as Ameritech, ABB or Pilkington investing in Poland.

US-UK 'open skies' talks resume today

By Andrew Fisher

BRITISH and US governments will hold talks today aimed at restarting negotiations on greater access to each other's skies which could affect such traffic.

Mr John MacGregor, transport secretary, is expected to assert again that more US access to regional airports in Britain can only be agreed if the US grants the same to UK airlines.

In his meeting this afternoon with Mr Federico Pena, US transport secretary, Mr MacGregor is likely to state that the UK wants to operate to destinations beyond the 22 main airline hubs such as New York. So far, the US has been reluctant to allow this; Lufthansa, the German airline, has complained strongly about restricted access to US airports.

Meanwhile, British Airways, whose revenues would clearly benefit from access to more of the US market, announced that it will give a lump-sum payment of six months' salary to any of its 6,000 ground staff at London's Heathrow airport who accept an offer to work part-time as part of the airline's drive to cut costs and make its operations more flexible.

It said many Heathrow employees, who include baggage handlers and check-in staff, had expressed interest in working part-time. BA wants to streamline its Heathrow workforce to fit in better with the peaks and troughs of daily traffic, especially long-haul flights to and from Asia and America.

BA gave no indication about how many people it expected to accept its Heathrow working proposals, offered in two schemes: Switch for under-50s wanting to shorten their working week and Wind Down for those over 50 who want to work less as they approach retirement.

The offer of six months extra pay applies to both schemes. In addition, those in the Wind Down scheme would have pension rights protected.

Most flight activity at Heathrow comes in the morning when long-haul flights arrive from the Far East and America and in the evening when many depart. Shuttle and business traffic is also heaviest at these times.

BA began asking staff earlier this year if they wanted to go part-time and expects to know by the end of this month how many are interested. It declined to say yesterday how many employees it would like to see on part-time working.

Lloyd's urged to delay writs

By Tracy Corrigan

MR VAL Powell, chief executive of the Association of Lloyd's Members, has written to Mr Brian Garraway, chairman of the regulatory board of Lloyd's of London, asking him to urge the insurance market to extend the moratorium on writs against Names in Gooda Walker syndicates.

The current moratorium on all writs seeking to recover funds from Lloyd's names is due to end on April 30.

Following the release of a 200-page report on the four lossmaking Gooda Walker syndicates which was passed to the Serious Fraud Office last week, Mr Powell argues that the moratorium on writs against Gooda Walker Names should not be lifted. In the light of the report "it is clear that Names will have been encouraged to join certain syndicates on the basis of a false prospectus," Mr Powell says.

Members of the four Gooda Walker syndicates are among the worst-hit of the insurance market's Names - individuals who supply its capital. Their losses amount to more than £900m, with many individuals facing losses of more than £1m.

The report focuses on the use by the Gooda Walker syndicates of "time and distance" policies - reinsurance policies which allow Lloyd's syndicates to manage their reserves against long-tail claims, which emerge many years after the inception of policies - more effectively. Such deals allow insurers to "discount" their reserves against future claims. Policyholders pay a reinsurance premium which is then invested by the reinsurer, with the proceeds - less a profit for the reinsurer - repaid at an agreed future date to meet claims.

MAASTRICHT TREATY

Labour plans fresh offensive on social chapter

By Ralph Atkins

THE LABOUR opposition party will today launch a fresh attempt to force ministers to back down over Maastricht's social chapter, hoping to dent government optimism that the bill's committee stage will end soon and without more concessions.

Mr George Robertson, Labour's Europe spokesman, will meet Mr Michael Morris, deputy Commons' speaker, to urge him to rethink the amendments on the social chapter selected for debate.

But Labour is now looking more to the bill's "report stage" - likely to follow shortly after the committee stage - as offering the best chance of forcing another government retreat.

Last week ministers agreed to support a Commons debate on the social chapter before formal ratification but after the bill completes its Commons' stage, expected after the Danish referendum on May 18.

Labour and Tory Euro-rebel MPs agreed yesterday that the committee stage is likely to end next week, or possibly even this week if the government wins votes allowing all-night sittings.

MPs are likely to vote on clause one of the three clause bill today - the 21st day of the committee stage.

Labour will abstain, allowing the bill to proceed but provoking Liberal Democrat and government accusations that they are anti-European. "We couldn't vote for clause one because there is still a social chapter opt out," said Mr Robertson.

Votes on new clauses to the bill, including on a referendum, could follow on Wednesday or Thursday and perhaps one day the following week.

Mr John Smith, Labour leader, is pledged to vote against a referendum and the rebels in his party or among Conservatives are unlikely to force a government defeat.

One Foreign Office insider said: "By the week and by the day, the general confidence of the government is underpinned and reinforced." Mr James Cran, a leading Euro-sceptic MP, said the committee stage could finish this week, "barring unforeseen circumstances".

Labour wants the reinstatement for debate of its amendment 27, which it believes would have the effect of forcing the social chapter on the government and, in spite of ministers' denials, is seen by some Tory Euro-sceptics as a possible wrecking amendment.

Mr Robertson is also urging the reinstatement of new clause 74, which would impose tougher conditions on the debate on the social chapter that the government conceded last week.

The party believes there is a strong case for a full debate on the social chapter, plus a vote, before MPs finish considering the bill.

Runners taking part in the 13th London Marathon yesterday pass the Canary Wharf development in Docklands. The men's race was won by 34-year-old British outsider Eamonn Martin after a neck-and-neck struggle with Mexican Isidro Rico, who finished second. In the women's race Katrin Dorre of Germany beat Australian Lisa Ondieki into second place. Some 25,500 took part in the 26 mile race

Mayflower to take over car designer

By Kevin Done, Motor Industry Correspondent

MAYFLOWER, the specialist UK automotive engineering group, is to take over the business and assets of IAD (UK), one of Europe's leading automotive design and engineering consultancies, which collapsed into administrative receivership less than two weeks ago.

The deal will increase Mayflower's annual turnover by 60 per cent to about £110m. It will create a significant force among the world's automotive design and engineering groups capable of rivalling the long-established Italian automotive design houses such as Pininfarina, Italdesign and Bertone, and Germany's Karmann.

Mayflower already owns Motor Panels, the Coventry-based automotive engineering group, which operates in fields from vehicle engineering design and development to tooling and manufacturing.

Mayflower is to pay £3.25m in cash to acquire IAD from the receiver and the shares of IAD's overseas trading subsidiaries, which did not go into receivership.

Mr John Simpson, Mayflower chief executive, said the combination of IAD and Motor Panels would provide "a world-class capability in automotive design and engineering".

Mayflower is already expanding rapidly and is in the midst of its second rights issue in less than two years.

It is raising £34.6m through a one-for-one rights issue to finance its existing expansion in the UK and the US. This includes a project to supply the bodies for a new MG sports car being developed by Rover, the UK carmaker.

Mayflower bought Motor Panels for £14.75m out of the receivership of the parent company, CH Industrials. It made a pre-tax profit of £1.7m last year on a turnover of £67.8m and has a worldwide workforce of nearly 1,000.

IAD made a loss of £105,000 on a turnover of £62m for the year to the end of April 1991.

Attali defends EBRD spending

By Scheherazade Daneshkhu

MR JACQUES ATTALI, the president of the European Bank for Reconstruction and Development, yesterday denied responsibility for the way in which £200m was spent by the bank on fitting out its London offices and meeting overheads since its launch two years ago.

Speaking on the BBC TV Breakfast With Frost programme, Mr Attali said that it had not been his role to decide the £750,000 spent on replacing and installing new marble at the entrance to the bank's Broadgate headquarters in the City of London.

"My role was to decide on the budget and to get it agreed by the board of the bank and to be sure that the cost of the building would be at the lower range of a City average," he said.

Mr Attali, who is to be questioned this week over the allegations of excessive spending at the bank by Mr Theo Waigel, German Finance Minister who is chairman of the EBRD, said he had nothing to apologise for.

He said that the bank had one-off start-up costs and that by investing to create its headquarters in England, the government would attract more business for the country.

Mr Attali said that many countries had competed to have the bank's HQ in their capitals. "I think it was a good decision for the British government to decide to invest a lot of money in the headquarters." He said the government had agreed to give the bank £40m to come to London.

Mr Attali avoided the question of whether he should resign if that was the price of restoring the EBRD's credibility.

Unilever's plans have been misunderstood, say **Christopher Lorenz and Guy de Jonquières**

Head office upheaval

When a corporate giant heralds a "review" of its head office, the outside world takes it as a clear signal that sharp cuts are in the offing. Expectations are inflamed if the company says that one of the purposes of the review is "to achieve the most cost-effective provision of essential services".

The precedents are legion: the blitzing of US General Electric's headquarters staff in the 1980s; a cut of more than two-thirds in British Petroleum's since 1990; and, most recently, a halving of the new ICI's head office over the next two years, in the wake of its demerger. The latter comes on top of a cut of more than 10 per cent since 1991.

With such exemplars in mind, outsiders were inevitably disappointed when the head office review initiated by Unilever last summer culminated more than two months ago in what seemed at first sight to be just a tidying-up exercise of the Anglo-Dutch consumer products group's unusual dual-centre headquarters. On a comparative basis, it entailed a net jobs cut of only 10 per cent in the core of the HQ, which has been rechristened "the corporate centre" and will now number 1,075. Its London arm is being reduced by 120 posts, to 675. In Rotterdam the Dutch branch will be enlarged very slightly, to 400 people.

On the surface, the closest the reshaping has come to drama is in the decision to transfer almost 600 of the jobs which were previously classified as part of the group's "headquarters" to the various operating companies (260 jobs) and national managements (330 jobs).

But real drama may yet emerge. In an HQ which has not changed substantially for decades, the working lives of its staff will now become more demanding. More fundamentally, the key justification for Unilever's head office – the ability to shape corporate strategy – may be given its sternest test in the next few years.

Not surprisingly, the February statement about "reshaping" provoked irritation among investment analysts and others in the City of London. A common complaint was that, unlike BP in particular, Unilever had not decided to cut its headcount sharply by "outsourcing" such support services as accounting, tax and legal affairs. Michael Fox, the senior manager who headed the review team, claims – controversially – that the term "is normally associated with cleaning and maintenance". On what he calls "higher-level" activities, he says "we don't see it as a significant opportunity for us".

Hans Eggerstedt, Unilever's finance director, is dismissive of City attitudes to head-office cuts.

Hans Eggerstedt (left) and Michael Fox hope to alter the top-down "control" culture

"Macho" announcements of the halving of HQ headcounts may excite people, but they are "misleading", he claims. "The City should be interested in the total performance of the business, not in the means," he urges.

Fox says only about half of Unilever's new corporate centre consists of "functional departments" such as personnel, finance, tax and legal staff. It was on this half that the review concentrated and from which all the 120 job cuts are coming; in that sense, it represents a reduction of 20 rather than 10 per cent.

The rest of the centre consists, first, of the "office of the [twin] chairmen" which is being enlarged from 14 to about 20 in order to strengthen its "strategic support" role. Beneath that come the regional and product "management groups", the latter are known more popularly in Unilever-ese as "co-ordinations". These are, in effect, the top tier of the four individual businesses: food, detergents, personal products and specialty chemicals.

The string of detailed functional changes include:

- The removal of much duplication and overlap between departments in London and Rotterdam.
- The amalgamation of many senior roles to provide "single-point responsibility" spanning the North Sea and the globe. Reporting lines will be simplified accordingly in various other parts of the centre.
- An insistence that each department should justify fully its existence, define its role and estimate the value it adds.
- The introduction of much tougher departmental and individual performance measures plus the concept of "continuous improvement" in productivity and service to internal "customers".
- The likelihood of further job cuts later, at least in the functions. But some of the management groups may have to be enlarged, says Fox.
- An attempt to start changing the entrenched top-down "control" culture of London and Rotterdam towards something more self-driven and consultative.

Beyond these issues of internal effectiveness and culture lies more fundamental questions which will be exposed to greater outside scrutiny – notably from investors – now that the centre's role has been made more transparent by the dispersal of activities which are not really corporate.

That, in turn, is likely to expose Unilever to future pressure on the most basic and threatening question that anyone – including potential predators – could ask about its centre: what strategic value does it really add in a corporate sense, over and above that created in the four businesses?

Recently the international management of the businesses has been strengthened and with it their strategic muscle. Various steps have been taken to ensure cross-fertilisation between them occurs more naturally, rather than having to be mediated by head office.

So what more does the corporate centre now provide than financial muscle and – especially vital within such a multinational company – personnel development which spans businesses and countries?

Eggerstedt says the reshaping is intended partly to reduce further the barriers between the different management groups, and enable synergies to "flow easily" across them. And he says "a major part of the discussion" has been around the need to improve Unilever's ability "to develop a corporate strategy".

That would seem to be an admission that this has been less than fully effective in the past. It cannot have been helped by the frequent confusion of head office managers between their corporate and other roles. The very size of the previous head office structure – almost 1,800 on its widest definition – was also a handicap to easy communication.

So the redefinition of managerial and support roles within the new centre's various departments should help matters. But no amount of reorganisation will recreate a proactive strategic role for Unilever's centre if the degree of leadership it provided in the past is no longer needed by its businesses.

The rise and rise of profit-related pay

Robert Taylor on carrots for employees

Britain's workers are increasingly involved with their companies through government-backed financial participation schemes. An estimated 3m of them are covered by various forms of profit sharing and are in receipt of shares or options worth around £10.2bn.

The most spectacular growth, however, has been in the area of profit-related pay (PRP). Figures due to be published by the Inland Revenue tomorrow will reveal that about one in 20 workers – 1.3m people – are now covered by 4,500 PRP schemes. Introduced in the 1987 Budget, PRP only really took off after Norman Lamont, the chancellor, doubled tax relief on the scheme two years ago and the government published model rules to help employers. Since 1990 the number of PRP schemes has tripled. PRP provides all full-time employees in a company with tax-free payments worth up to £4,000 a year or 20 per cent of salary, whichever is the lower. The scheme has to be registered with the Inland Revenue and is subject to detailed regulations with the 20 per cent part of the worker's pay "profit related".

"PRP is not an incentive system but deliberately designed to make basic pay more variable," says Brian Friedman, managing director of Stoy Benefit Consulting. "It provides employees with tax-free money equivalent to a 7 per cent pay rise," he adds.

"PRP has become a major attraction of profit sharing over the past year because it can boost net pay at a time when the cash for normal pay awards is not available," explains David Shonfield at Incomes Data Services.

Gallaher, the tobacco company, Norwich Union, an insurance concern, and Nationwide Anglia, a building society, were among the early converts to PRP.

The growth has come despite last August's move by the Inland Revenue to close a tax loophole that had enabled companies to link their annual calculation of what was profit pay to other factors, so allowing an annual bonus to be paid tax free. Experts thought this might slow down the spread of PRP, but that does not appear to be the case. Up until now the vast majority of PRP schemes have provided workers with a tax free bonus on top of their basic pay. But there are signs of a change, particularly since the Revenue's tightening of the rules.

Some companies in the current pay round are offering PRP's as part of the basic pay offer. Others are introducing the concept of salary conversion. "This is much closer to the original intention of PRP", admits Friedman.

Clearly companies in financial trouble are unlikely to win much support from their employees for PRP, but the size of the tax advantages do provide some flexibility for companies whose profits fall.

PRP is not the only government tax incentive scheme on offer to companies which want to involve

"Profit-related pay is not an incentive system but deliberately designed to make basic pay more variable"

their employees more directly in their financial performance. And in a show of the broad industrial and political consensus on this subject a joint bid to encourage their spread will be launched tomorrow by Lamont, Norman Willis, the TUC's general secretary, and Howard Davies, the director-general of the Confederation of British Industry.

According to the recently published official 1990 workplace relations survey, 55 per cent of trading sector workplaces are covered by some form of worker financial participation scheme.

The first scheme, a profit-sharing trust scheme, was introduced in Denis Healey's 1978 Budget and came into force a year later. It enables companies to provide a discretionary allocation of shares to full-time employees of more than five years' standing. The maximum value of the shares that can be given to one worker is £3,000 or 10 per cent of earnings, whichever is the greater, up to an £8,000 ceiling. The shares are held in trust by the company for at least two years before they can be sold, but workers must wait a further three years before they can sell their shares without tax liability. The latest statistics show there are 1,012 such registered schemes in existence covering 800,000 workers.

In 1980 came the Save As You Earn Option Scheme. This also covers all employees in a company. They pay monthly contributions of between £10 and £250 for a five-year period into a bank, building society or national savings account. The eventual lump sum can be used to acquire shares at a 20 per cent discount to the current market price prevailing at the outset of the scheme. No income tax is payable on the options exercised at the end of the five-year saving period. There are now 1,058 such schemes covering 470,000 workers.

The Discretionary Share Option Schemes under the 1984 Finance Act is confined to an elite of managers and directors. Options can be granted to a full-time employee over shares worth up to four times the individual's annual earnings, or £100,000, whichever is the greater. If options are exercised more than three years but no more than 10 years after they are granted, the proceeds will be tax free. According to today's Institute of Management Survey the number of managers and directors covered by share option schemes rose to 34.7 per cent of the sample survey from 29.2 per cent in 1992.

Less popular in Britain because of the meagre tax benefits are Employee Share Ownership Plans. Under these, companies establish a trust elected by the workforce, which acquires and distributes shares to workers.

A recently published government survey suggests the majority of the above schemes would never have been created without the lure of tax relief. But it also points out that competitive pressures, rapid technological change and the need for more employee flexibility have all encouraged companies to introduce financial participation schemes.

CONSTRUCTION CONTRACTS

£50m Teesside development

Solid foundations are being laid by Tarmac for a £50m scheme to bring new leisure and business interests to Teesside and the north east.

A total of 15,000 cu metres of reinforced concrete is being pumped into the "dry" bed of the diverted River Tees for the base of the Tees Barrage, being built by TARMAC CONSTRUCTION for Teesside Development Corporation.

The barrage, 70 metres wide and 50 metres long, is a key project in the Corporation's regeneration of 19 sq miles of derelict land.

The barrage at Blue House Point, Stockton, will create 12 miles of clean navigable waterway upstream for sporting and recreational activities, and access to newly-established commercial areas.

Other amenities and leisure facilities in the barrage project include a canoe slalom, navigation waterway and lock, a fish pass, cafeteria and a caravan park.

The foundation work will be completed in July ready for the erection of the bridge over the barrage structure. The bridge comprises 700 tons of tubular steel and 64 circular one and a half tonne castings which are being manufactured locally.

The river will be rediverted at the end of September to allow the temporary diversion to be filled in and the navigation channel to be constructed.

Installed between the piers of the barrage substructure will be four fishbelly gates, each weighing 50 tons, and measuring 13.5 metres long and eight metres high. The gates will regulate the flow of river water and also act as a barrier to prevent tidal flooding upstream. The barrage is being designed to work automatically and will be commissioned in October 1994.

Aquapark scheme for Brno

JOHNSONS and its joint venture partner HEXAPLAN, a firm of architects based in Brno, have extended their association with the Boby Centrum development with a further commission - the construction of Brno's first Aquapark.

The Aquapark will be built on the adjoining site to the leisure complex. Facilities will include both internal and external leisure pools.

Johnson Hexaplan is preparing working drawings for the Kcs430m (£10m) project scheduled to commence on site in mid-July.

Medical project

CONDER PROJECTS has secured a US$6m (£3.9m) contract to build a paediatric polyclinic at Neftevgansk in Russia. The children's clinic is being funded by a number of oil companies, including Shell, which is carrying out exploration in the area.

Dubai study

MAUNSELL, in association with AMAR CONSULT, has been appointed by the Dubai Municipality for the study and improvement of Dubai Creek.

The aim of the project is to review its current status and investigate the potential for further development.

Testing materials

A British scientific consultancy has clinched a £7.5m contract to supply technical expertise to the Hong Kong Housing Authority.

RENDEL SCIENCE & ENVIRONMENT is to provide a professional materials testing service (PMTS) for the colony's public sector housing industry over the next three years.

Maintaining local authority buildings

JOHN MOWLEM CONSTRUCTION has won work worth nearly £17m. The largest contract, worth £11m, is a three-year appointment for maintenance and repairs to all municipal buildings (principally schools and leisure centres) within the London Borough of Newham.

Also in Newham, Mowlem has a £558,000 contract from the council for repairs to council housing on The Triangle Estate, London E16. This project is being undertaken under the Department of the Environment's training initiative.

In Westminster, Mowlem has won a £1.7m contract to build a nursing home at 131-151 Regency Street, London SW1 for Riverside Health Authority. Mowlem has demolished the houses on the site and is erecting a building of traditional construction on piled foundations.

At Angel Square, Islington, Mowlem has been awarded a £1.6m contract by HM Customs & Excise to fit out 60,000 sq ft of office space. The work comprises the installation of raised floors, new services, kitchens and computer rooms.

At Heathrow Mowlem has been awarded a £960,000 contract to fit out The Admiral's Club at Terminal 3 for American Airlines' first and business class passengers. The club will comprise a lounge bar, business and conference centre, library, quiet room, toilet and shower facilities, luggage storage and entrance hall.

In Bromley Mowlem is working on a complex three-phase project to refurbish the County Court while it is still occupied. The £692,000 contract is due for completion in May.

Finally, in Reading, the south east region of John Mowlem Construction has won a £473,000 contract to build a fire house for The Royal County of Berkshire.

The three-storey building will be used to provide smoke training for members of the County fire brigade.

Upgrading social housing in Hounslow

UNITED HOUSE is to refurbish and upgrade a mix of 506 houses, maisonettes and flats on North British Housing Association's Beaver Estate at Hounslow, west London, under a contract worth £8.4m.

Because the internal work is so extensive the occupants will be moving out for the five/six weeks required to install new bathrooms and kitchens, central heating and windows and for the replacement of all wiring and plumbing. All flat roofs are being given new pitched, tiled roofs.

Responsibility for the timings and phasing of all movements, over a period of 20 months, rests with United House. The Housing Association is providing alternative accommodation elsewhere on the estate.

While all this is going on United House will also undertake a similar upgrading of the Beaver's Ermine Community Centre.

Research laboratories at Macclesfield

LAING NORTH WEST, part of the Laing Group based in Mill Hill, London, has won a £4.8m contract to build central research laboratories and offices for Ciba at Macclesfield.

The project involves a local construction workforce of 30. The contract includes construction of a two-storey building with 11 laboratories, offices, stores, toilets, cafeteria, locker rooms, library and conference room. A large plant room will be on the first floor incorporating the main electrical and mechanical plant.

Construction will be steel frame with in situ concrete topping to the first floor. The roof comprises mono pitched raised seam sheeting to the offices and a dual pitched roof with raised seam sheeting with curved eaves to the plant room.

Office and laboratory external walls will be a prefinished aluminium panel rainscreen system with double glazed thermally broken prefinished aluminium windows and doors. The complex mechanical and electrical services include extensive fume extraction facilities.

PEOPLE

Cooper quits Treasury for James Capel

The Treasury has lost another of its top economists to the private sector in the shape of Adrian Cooper, who is leaving to join James Capel. Cooper, the Treasury's forecasting co-ordinator, is joining two other ex-Treasury economists in James Capel's six-strong economists group.

Cooper, 28, has worked at the Treasury since 1986. He has played a key role in extending the Treasury's contacts with outside economists in an effort to improve on its poor recent forecasting record.

Cooper, who graduated from Bristol University and has a higher degree from the London School of Economics, says he is leaving primarily to "gain experience of economics in a private-sector environment". The fact that he would be paid more at James Capel "is not the main reason, though it is a nice feature". Despite criticism directed at the Treasury, morale within the economists' department was high: "I've enjoyed working here."

Cooper will work in a James Capel team headed by Keith Skeoch which also includes two other ex-Treasury economists, Gwynne Hacche and Stephen King. He will feel very much at home at James Capel's City offices, which are shared with its sister company Midland Global Markets, also owned by HSBC Holdings. In Midland's economics teams are a further two former Treasury officials in the shape of Simon Briscoe and Julian Jessop.

Cooper – who leaves the Treasury in early May – has recently been working under Colin Mowl, the Treasury's chief forecaster. He has sat in on meetings of the "seven wise men" of outside forecasters and was responsible for a large amount of the draft of this group's first report issued in February.

He has also become involved with controversy over whether the Treasury might at some point seek to contract out its computerised economic model to an outside group. But the Treasury says it still has some way to go before deciding on whether to ask companies to do this work.

Non-executive directors

■ David Dugdale, former deputy chairman of James Capel, at TRENCHERWOOD.
■ David Hardaker has resigned from COURTYARD LEISURE.
■ James Stride at LONDON & ST LAWRENCE INVESTMENT COMPANY and PRACTICAL INVESTMENT COMPANY.
■ Thomas Bierman at DOLPHIN PACKAGING.
■ Franz Lutolf is retiring from SEDGWICK GROUP.
■ Sara Morrison at KLEINWORT CHARTER INVESTMENT TRUST.
■ Lord Cavendish of Furness, chairman of the Holker Estate Group of Companies and a former government spokesman in the House of Lords, at UK NYREX.
■ Professor Sir William Taylor has retired from FENNER.
■ Bill Jarratt, a director of South Wiltshire Enterprise Agency, at FIRST CHOICE HEALTH.
■ Carel Mosselmans, chairman of Rothschild Asset Management, chairman of Exco International, and a non-exec at Coutts & Co, as chairman at JANSON GREEN.
■ Montague White has resigned from P-E INTERNATIONAL.
■ Sir John Morgan as chairman at DRAYTON KOREA TRUST following the resignation of Nicholas Johnson. Johnson has also resigned from DRAYTON ENGLISH AND INTERNATIONAL TRUST.
■ John Dawson at CLYDESDALE BANK; Max Bray has resigned.
■ Neville Root has resigned from NORWEB.
■ Dennis Sewell, finance director of Clayhithe, at LASER-SCAN HOLDINGS.

Farmer takes over at Moscow Narodny

Moscow Narodny Bank, the 73-year-old London-based bank which has been trying to find a new role for itself following the collapse of the Soviet Union, has appointed Derek Farmer as deputy general manager.

Farmer, 48, will be the senior British executive in a bank which has had a reasonably rapid turnover of general managers over the past few years. He will be acting general manager following the departure of Cliff Evans who had been in the job for just over two years.

Evans, a former Citibanker, had replaced Campbell Dunford, a former Midland Bank trade finance official, who had been doing the job since February 1988. Moscow Narodny gave no reason for Evans' departure but it is understood that he may be involved in setting up a joint venture bank in Moscow.

Moscow Narodny, which used to be the main overseas commercial bank of the former Soviet Union, is recovering from a turbulent period in 1991 when it lost £120.6m. The disintegration of the Soviet Union caused a run on its deposits and Russia was forced to step in and inject more than £300m of new capital to guarantee its survival. The balance sheet of the bank, which is now controlled by the Central Bank of the Russian Federation, has shrunk from £2.5bn in 1989 to £1.1bn in 1991.

The new acting general manager started his banking career at the Royal Bank of Scotland. Between 1970 and 1982 he worked for Toronto-Dominion Bank, including seven years in Toronto and two years in the Middle East. He has since worked at The Royal Trust Company of Canada, Ubaf Bank and Banque Paribas, and has most recently worked as a consultant with Harrods Bank.

CONTRACTS & TENDERS

The State Property Agency (SPA) notifies you that the tender invited in January 1993 for the sale of shares in the amount of HUF 1,501,000,000 of Dorottya Asset Managing and Service Ltd was unsuccessful since none of the bids met the formal requirements of the invitation.

Therefore the SPA offers again all shares of Dorottya Ltd through an open tender. The only property of this corporation is the so called "Gerbaud Building".

Starting at April 15, 1993 the applicants may get a draft purchase contract for the sale of Dorottya Ltd's shares at the Tender Office of the SPA if they sign a confidentiality statement.

Bids should be submitted in three examples in sealed envelopes, not bearing a letterhead, with a clear indication "Gerbaud Building", to the SPA's Registration Office (Budapest, 1133. Pozsonyi ut 56), before May 12, 1993.

Offers shall contain:

- purchase price (in figures and in letters) with the indication of the terms of payment;
- plans for the utilization of the "Gerbaud building";
- introduction of the applicant;
- the draft sales contract for the shares, approved and signed by the applicant.

The applicant should undertake a 60 day obligation regarding the offer.

The tenders will be opened at the SPA at 4 p.m. on May 12, 1993.

Before May 13, 1993 the applicant should present a bank guarantee regarding the deposit of retention money in the amount of HUF 70,000,000 or they should deposit this amount, as retention money, on the SPA's account held by the National Bank of Hungary. The SPA will accept a guarantee issued by a first rate bank verifying the existence of the HUF 70,000,000 and the fact that this amount was deposited as retention money for the purchase of Dorottya Ltd's shares.

May 13 is the starting day of the second round of the tender when the applicants may correct their proposals. The tenders will be closed presumably on May 19, 1993. The following day all participants, but the winner, will get back the bank guarantee or the deposited money.

Bids submitted for the first tender will participate in this tender if the applicant does not submit a new proposal.

For further information please contact:

State Property Agency
Tender Office
Phone: (361) 269-8600

SHENLEY DISTRIBUTION LIMITED
THE INSOLVENCY ACT 1986

NOTICE is hereby given pursuant to Section 98 of the Insolvency Act 1986 that a Meeting of the Creditors of the above-named Company will be held at 78 Hatton Garden, London, EC1N 8JA on 21 April 1993 at 12.00 noon for the purposes mentioned in Section 99 to 101 of the said Act.

Creditors wishing to vote at the Meeting must lodge their proxy, together with a full statement of account at the registered office – New Garden House, 78 Hatton Garden, London EC1N 8JA, not later than 12 noon on 20 April 1993.

For the purposes of voting, a secured creditor is required (unless he surrenders his security) to lodge at New Garden House, 78 Hatton Garden, London EC1N 8JA, before the meeting, a statement giving particulars of his security, the date when it was given and the value at which it is assessed.

Notice is further given that a list of the names and addresses of the Company's creditors may be inspected, free of charge, at New Garden House, 78 Hatton Garden, London EC1N 8JA, between 10.00a.m. and 4.00p.m. on the two business days preceding the date of the meeting stated above.

By Order of the Board

Peter Burton
Director

SHENLEY TIMBER SUPPLIES LIMITED
THE INSOLVENCY ACT 1986

Notice is hereby given pursuant to Section 98 of the Insolvency Act 1986 that a Meeting of the Creditors of the above-named Company will be held at 78 Hatton Garden, London, EC1N 8JA on 21 April 1993 at 11.00am for the purposes mentioned in Section 99 to 101 of the said Act.

Creditors wishing to vote at the Meeting must lodge their proxy, together with a full statement of account at the registered office – New Garden House, 78 Hatton Garden, London EC1N 8JA, not later than 12 noon on 20 April 1993.

For the purposes of voting, a secured creditor is required (unless he surrenders his security) to lodge at New Garden House, 78 Hatton Garden, London EC1N 8JA, before the meeting, a statement giving particulars of his security, the date when it was given and the value at which it is assessed.

Notice is further given that a list of the names and addresses of the Company's creditors may be inspected, free of charge, at New Garden House, 78 Hatton Garden, London EC1N 8JA, between 10.00a.m. and 4.00p.m. on the two business days preceding the date of the meeting stated above.

By Order of the Board

Peter Burton
Director

PEAK PLANT (KENT) LIMITED
THE INSOLVENCY ACT 1986

Notice is hereby given pursuant to Section 98 of the Insolvency Act 1986 that a Meeting of the Creditors of the above-named Company will be held at 78 Hatton Garden, London, EC1N 8JA on 27 April 1993 at 12.00 noon for the purposes mentioned in Section 99 to 101 of the said Act.

Creditors wishing to vote at the Meeting must lodge their proxy, together with a full statement of account at the registered office – New Garden House, 78 Hatton Garden, London EC1N 8JA, not later than 12 noon on 26 April 1993.

For the purposes of voting, a secured creditor is required (unless he surrenders his security) to lodge at New Garden House, 78 Hatton Garden, London EC1N 8JA, before the meeting, a statement giving particulars of his security, the date when it was given and the value at which it is assessed.

Notice is further given that a list of the names and addresses of the Company's creditors may be inspected, free of charge, at New Garden House, 78 Hatton Garden, London EC1N 8JA, between 10.00a.m. and 4.00p.m. on the two business days preceding the date of the meeting stated above.

By Order of the Board

Barry Heal
Director

Notice of Appointment of Administrative Receivers
W LISTER LIMITED

Registered number: 511913. Trade classification: 23. Name and address of Joint Administrative Receivers: David John Stokes and David James Waterhouse, Coopers and Lybrand, 1 East Parade, Sheffield, S1 2ET. Office holder numbers 2682 and 5632. Date of appointment: 5 April 1993. Name of appointer: National Westminster Bank PLC.
Signed: D J Stokes
Dated: 6 April 1993

Concerts

Song-bird of more decibels

Song-birds in the world of opera sing out with more decibels than they used to. June Anderson, arguably the leading soprano in the bel canto repertoire at the moment, gave a recital at the Wigmore Hall on Saturday and the hall's fine acoustics showed us how big this voice really is – surely several sizes larger than singers would have been in the early 19th century.

She began, predictably enough, with Bellini and Rossini, her known strength. The second Bellini song, "La ricordanza", is a different working of the ideas from the main aria of *I Puritani*, in which June Anderson had such a success at Covent Garden last year. Her shining soprano, with its 100-watt brightness, is heard to its best effect in this sort of music and the phrasing was simpler, more effective, than she often makes it.

The only drawback in hearing this singer in recital is that she finds it difficult to turn down the brilliance over the course of an evening. The ears start to tire of the constant gleam in the sound, as the eyes might looking into a strong light. Liszt's "Die Lorelei" talks of the glow of the evening sunshine, Duparc's "Au pays òu se fait la guerre" of the pale moonlight. But here the voice was always at the height of its midday radiance.

From the items mentioned so far, it will be clear that this was not a conventional song-bird's programme. In fact, the evening was very well planned – a Spanish group to close the first half with a flourish, French and American songs for contrasting moods after the interval. The accompanist, Charles Spencer, gave his singer the freedom that she needed.

For all that, in every item it was the voice that mattered most. In Ned Rorem's "Ferry me across the water" the last note hung suspended in the air for what seemed an eternity, a beautiful, pure stream of sound that flowed on and on without any change or degradation in quality to be detected.

On Wednesday the Purcell Room continued with its Song Recital Series, a welcome enterprise which still has some way to go before it rivals the Wigmore Hall's long-established reputation for excellence in this area. The singer was the mezzo-soprano Fiona Kimm, unfortunately in the last stages of a cold, which put a dampener on the evening. Nevertheless, there was some life in it left, because Miss Kimm had put together an adventurous second half.

Berio's *Four Canzoni Popolari* opened with a mix of folk simplicity and Italianate virtuosity (accompaniments played by Andrew Ball). Anthony Payne's *Adlestrop* set Edward Thomas's poetry to a free vocal line underpinned by Janáček-like motifs. John Cage's "The Wonderful Widow of Eighteen Springs" replied with James Joyce sung to a chant-like theme, while the pianist taps out the accompaniment on the closed lid of the piano. Then Jerome Kern and Cole Porter to finish. Adventure rewarded.

Richard Fairman

A conversion to sculpture

Colin Amery visits the new Henry Moore Institute in Leeds

On Thursday the Henry Moore Institute opens in Leeds. The opening event is an important occasion for two reasons. Firstly, the new institute is the headquarters of the Henry Moore Sculpture Trust, which has the exciting remit to encourage the appreciation of sculpture of all periods; secondly, the inauguration will unveil to the public an intriguing and original new building by the architects Jeremy Dixon and Edward Jones.

"New building" is not quite an accurate description of the centre, which is a conversion of three 19th-century wool merchants' office buildings at the end of Cookridge Street, next door to the Leeds City Art Gallery. Leeds has some marvellous architectural set pieces from the last century, especially the proud, bombastic Town Hall by Cuthbert Broderick (1858). Its great tower rising out of the vast columned base is grander than Greenwich and redolent of Halicarnassus, despite being in the Corinthian mode.

Broderick's oval Corn Exchange in Duncan Street is also a remarkable structure and has been well adapted to its new retail uses. The City Square demonstrates the pride the city fathers of Leeds had in their urban improvements, and the statuary – particularly the equestrian statue of the Black Prince and the rows of bronze maidens holding their lamps – are effective sculptural elements in the townscape.

Sculpture is a growth industry in Yorkshire, largely because of the activities of the Henry Moore Foundation. Henry Moore was born in 1898 in Castleford near Leeds, the son of a Yorkshire coal miner. He went as a student to the Leeds art college after his demobilisation in 1919, and later to the Royal College of Art in London. At the Royal College he was to meet Barbara Hepworth as a fellow student – she had been born in Wakefield and was a scholar supported by the West Riding County Council. Coincidentally, their joint creative careers are both marked this year by the opening of this centre in Leeds and by the opening of the Tate Gallery in St. Ives, Cornwall, where Hepworth worked.

All this Yorkshire creativity has come home to roost in Leeds, where the Henry Moore Foundation has spent £5m on the new centre. It has one of the very few new galleries in Europe designed specifically for the display of sculpture. Jeremy Dixon and Edward Jones are clearly inspired by their frequent visits to the US. They seem to have absorbed that particularly American art gallery "feel": in their conversion, the immaculate, minimally detailed white rooms gently smooths away the past of the old houses. It is a feeling I like for its neutrality and coolness, which demands great care from the architects and the project builders, depending as it does on precision.

The major shock is the facade that greets you as you arrive on The Headrow. The long square from the Town Hall to the war memorial is a recent creation. Many of the buildings that face onto it were not designed with any civic presence. The new entrance facade of Moore Institute was originally the naked cut-off gable end of a partly demolished row of houses. The architects' bold decision to make this wall the entrance to the Institute demanded some architectural imagination to create a suitably civic facade.

Not surprisingly they opted for a sculptural solution, but of the most minimalist kind. The architects have designed flights of steps mounting up towards the shiny blank black granite, where an asymmetrically placed slot marks the narrow entrance. The large black wall is totally abstract and could as easily represent a Yorkshire coalface or an ancient Egyptian tomb. It is to my eye reminiscent of the great black granite wall that forms the Vietnam war memorial in Washington DC. Or is it perhaps inspired by those "vest pocket parks" that utilise the end-walls of partly demolished buildings in New York City and turn them into walls of water? Perhaps it is none of these things, but just a suggestion of a huge block of granite awaiting the hand of the sculptor. It is a radical and unusual solution to the planning problem. It certainly does not look inviting; my feeling is that it looks more like a tomb for Henry Moore than anything else.

Inside, things are decidedly more cheerful. Light breaks out in a splendid way in the new main sculpture gallery, which has one entire wall of bronze framed obscured glass. The opening exhibition, *Romanesque Stone Sculpture from Medieval England* looks very good in this space despite the rather heavy-handed, but presumably necessary, metal mounts and stands. There is an opportunity to look at recently restored work from York Minster and Lincoln cathedrals. The good level of natural light and the total absence of any architectural detail make it possible for sculpture of all periods to be shown here with ease. The upper floors house the archive and study centre and the top floor has handsome administrative offices and a board room. The whole institute is linked to the main art gallery by an elegant new bridge.

There is a lot to admire in the timber, glass and painted plaster interior of this new institute, and pleasure to be had in the atmosphere of calmness and contemplation that the architects have successfully created. The black facade shows how hard it is to move beyond the vacancies of abstraction to a convincing language for the faces of new public buildings.

Jeremy Dixon and Edward Jones's black granite facade for the new Institute

Opera North

Urban under-class Bohème

With the resurgence of tuberculosis as a serious threat to health in the West, the fate of poor consumptive operatic heroines is no longer the stuff of dewy-eyed romantic legend. It is easy to imagine a production of *La Bohème* set in the present-day – a tale of the urban under-class, in which any aspirations for the future are smothered by a life of poverty and decay.

As it happened, the new production by Opera North did not go that far. Phyllida Lloyd, the producer, stopped short of bringing the opera right up-to-date and stayed (less persuasively?) in the period of beehive hair-dos and teenagers' motorbikes. Marcello, the painter, decorated his spartan living space with pop-art images of his girlfriend in the style of Andy Warhol. His student friends looked a fairly leftish lot, who pinned a cartoon of their landlord, marked "fascist", up on the wall.

None of this was really controversial, as it turned out; more a case of good, clean fun. A producer of this opera has to make sure that the scenes of young people's horseplay have plenty of energy to them, if the right contrasts of mood are to be set up, and Phyllida Lloyd does so with conviction. The scene outside Café Momus was great fun: the cafe itself is a gaudy coffee bar, while the winter crowds skate past the window on an ice rink outside.

The end of the scene is marked by a parade of Father Christmases, which adds to the Anglo-Saxon flavour of the evening. Kerouac's *On the Road* is mentioned in the programme and Anthony Ward's settings are duly brashly American, but the good manners and palpably modest niceness of the leading couple make them seem distinctly English. (There is no red-blooded Italian feel to the production at all, despite the opera being sung in the original language.)

What is important, however, is the way that this Mimi and Rodolfo win over one's sympathy from their first scene together. The Canadian soprano Jane Leslie MacKenzie was a genuinely touching Mimi, the singing sincere and nicely shaped. Her American partner, William Burden, proved a very interesting find, not a truly Puccinian Rodolfo, as the voice is too small and English (Mozart and Britten material) in sound, but everything he did was tasteful and vocally well produced.

One really cared about both of them. The gaucherie with which they embark on their affair, the nervous smiles, the awkward wringing of the hands, all worked in the most charming way. They contrasted well, too, with Rodolfo's more outgoing friends – Robert Hayward's forceful Marcello and William Dazeley's Schaunard, who brought off his return from a fancy-dress party in drag with some elan. Juliet Booth made a lively, unexaggerated Musetta.

Despite signs of immaturity (Rodolfo's sobs at the end and the silent circling of the other characters are overdone) the production hits its target. When Mimi enters in the last act, deathly pale, and lurches forwards to be sick in the kitchen sink, a shudder of realism goes down the spine. This is real verismo – a reminder that such illnesses are marching out of operatic fiction and back into real-life documentary.

Richard Fairman

Production sponsored by Yorkshire Television. Further performances in Leeds until 22 May, then Manchester, Nottingham, Hull and Sheffield.

Juliet Booth, Jane Leslie MacKenzie, and William Burden

Dramatic talent, step forward

Karen Fricker reviews the Humana Festival of new plays, Louisville

The 17th annual Humana Festival of New Plays at the Actors Theater of Louisville looked and sounded, to its credit, more like America than the fare of theatres in many of this country's major urban centres. Its nine playwrights, including four women and three writers of colour, took on some of contemporary society's most pressing issues in productions that upheld the high standard of acting and design that we have come to expect from America's best-known new plays festival. Though not all of its risks paid off this year, its unceasing commitment to producing work that pushes the boundaries of traditional playwriting keeps the Festival vital.

Humana's most conventional play this year was also its most successful: Joan Ackerman's *Stanton's Garage*, a two-act comedy set in an auto repair shop in rural Missouri. It is a big, overstuffed sofa of a play: too long, but comfortable, packed full of interesting characters and witty dialogue.

Car failure maroons Lee (Priscilla Shanks), a successful but uptight doctor, at Stanton's Garage with her fiance's bookish teenage daughter, Frannie (Jessica Jory), who is so involved in caring for her father that she has not developed a life of her own. Lee and Frannie never get to their destination – needless to say the mechanics in the garage have never seen a Volvo before – but two sweaty midsummer days in Stanton's Garage thaw these frosty, defensive women. Frannie gets her first kiss from the garage's junior mechanic, in a charming scene sensitively played by Jory and Rob Kramer, and Lee realises that she has spent her life defining herself by outside standards and decides to leave Frannie's father.

Local colour transcends any cliché through the actors' excellent performances, particularly Adale O'Brien as the garage's wisecracking receptionist. In Steven Albrezzi's adept production the play's potentially confusing plot lines crack along with perfect clarity. Scenic designer Paul Owen matches the naturalism of Ackerman's writing with a garage perfectly observed.

This year's most talked-about offering was *Keely and Du*, a play about abortion by one of the Festival's most prolific and mysterious writers, Jane Martin. Jane Martin is a pseudonym, and it is widely believed that "she" is Actors Theater Artistic Director Jon Jory, who directed *Keely and Du*.

Keely and Du is similar in its spareness to David Mamet's recent two-hander about sexual harassment, *Oleanna*; but unlike Mamet, Martin's pared-down style does not expose the heart of the debate he tries to dramatise. The play opens in a barely furnished cell in which a young woman, Keely (Julie Boyd), is handcuffed to a bed. Impregnated when her former husband raped her, Keely was on her way to an abortion clinic when she was abducted by a radical anti-abortion group. Walter (Bob Burrus), the evangelical pastor responsible for Keely's capture, tells her that they plan to force her to carry the baby to term. Supervising Keely is an elderly woman, Du (Anne Pitoniak), whose growing fondness for the younger woman leads her to deviate from her orders.

Keely and Du is so well-plotted and the Humana production so tightly directed and intently played that its build up is inexorable and gripping, its denouement at once inevitable and shocking. But Martin's technical writing skills and this strong production cannot make up for *Keely and Du's* failure to talk about what it is really talking about: a political issue.

Humana's presentation of ten-minute plays this year was almost a non-event: one-idea situations the writers have tried to stretch, unsuccessfully, into plays. *Deadly Virtues*, a collaborative creation of its five-person ensemble that was adapted and directed by Brian Jucha, was Humana's most non-traditional offering. Though well-performed, painstakingly choreographed and gorgeously produced, this collage of movement, song and text came off as pretentious and meaningless – the kind of thing that gives performance art a bad name..

Another interesting idea gone awry was *Shooting Simone*, Lynne Kaufman's investigation of the ambiguities in feminist Simone de Beauvoir's relationship with Jean-Paul Sartre. Kaufman's reductive treatment of her subject matter was matched by a shallow production – Paul Owen's unimaginative set, Lazlo Martin's scattershot direction, and the actors' brassy performances – that played like a bad TV movie.

Far more exciting were works by two talented young writers testing the bounds of the traditional narrative play. Kevin Kling's *Ice Fishing Play* is an intriguing overlay of situational comedy, memory play, and meditation on mortality. Kling's convoluted storytelling calls out for a clarity of production that it did not receive from Michael Sommers, but the freshness of this writer's voice is indisputable.

Any disappointment in *Jennine's Diary*, a jumbled travelogue/memory play that was the first of Regina Taylor's brace of one-acts billed as "Various Small Fires", was quickly eradicated by the second, *Watermelon Rinds*. In Novella Nelson's production, Taylor's hilarious and harrowing reinvention of the family drama for contemporary urban Black life exploded with imagination and verbal dexterity. We should be hearing more from Taylor, who is an accomplished stage and television actress as well as playwright.

INTERNATIONAL ARTS GUIDE

■ BERLIN

OPERA/DANCE

Deutsche Oper Tomorrow: Andreas Schmidt, accompanied by Rudolf Jansen, sings Winterreise. Thurs: choreographies by Christopher Bruce and Lindsay Kemp. Fri: L'Italiana in Algeri. Sat: Valery Panov's production of Prokofiev's ballet Cinderella. Sun: Fidelio with Janis Martin and Paul Frey. May 1: first night of Götz Friedrich's new Meistersinger production (341 0249)

Staatsoper unter den Linden Tomorrow: ballet mixed bill, including Balanchine's Symphony in C. Wed and Sat: La traviata. Thurs and Sun: Egon Bischoff's production of Giselle. Fri: Der fliegende Holländer. Next Mon: Margaret Price song recital. May 7: first night of Jonathan Miller's new production of Capriccio (200 4762)

CONCERTS

Philharmonie Tomorrow, Wed, Thurs: Zubin Mehta conducts Berlin Philharmonic Orchestra in Mozart's B major Serenade and Stravinsky's The Rite of Spring. Sun (Kammermusiksaal): Brahms chamber music evening with members of BPO and soprano Iris Vermillion (2548 8232)

Schauspielhaus Thurs: Sinfonia Varsovia plays works by Strauss, Schumann and Mozart. Fri: Nikolai Alexeyev conducts Berlin Radio Orchestra in works by Stravinsky, Prokofiev and Shostakovich. Sun: Berlin Kammersymphonie plays Russian programme including Schnittke's Concerto for two pianos (2090 2156)

Deutschlandhalle Thurs: Luciano Pavarotti (3038 4444)

THEATRE

Theater am Kurfürstendamm has Sag mir wo die Blumen sind, a new musical based on the life of Marlene Dietrich, daily except Mon (300 6000). Deutsches Theater repertory includes a new production of The Iceman Cometh, Eugene O'Neill's majestic play about pipedreams gone sour (2844 1225). Schaubühne has a revival of Andrea Breth's production of Schnitzler's The Lonely Road (890020). Ariel Dorfman's moral thriller Death and the Maiden can be seen daily at Renaissance Theater (312 4202). Berlin's annual German-language theatre festival runs from May 1 to 20. This year's line-up of 12 plays includes Shakespeare productions from Weimar and Munich, Ralf Hochhuth's controversial play Wessis in Weimar and Thomas Langhoff's acclaimed staging of Hofmannsthal's The Tower (882 6563)

● Tickets and information for theatre, revues, concerts and nightclub shows available from City Center Theater und Konzertkasse, Kurfürstendamm 16 (tel 882 6563 fax 882 6567) and Theaterkasse im Europa-Center (tel 261 7051 fax 261 9286)

■ NEW YORK

THEATRE

● Angels in America: Tony Kushner's drama deals with a gay couple, a Mormon couple and a McCarthyite lawyer as they contend with sexual, political and religious issues. Directed by George Wolfe. In previews, opens April 29 (Walter Kerr Theatre, 219 West 48th St, 239 6200)

● Thornton Wilder trilogy: three one-act plays about small-town American life - The Long Christmas Dinner, The Happy Journey and Pullman Car Hiawatha. In previews, opens on Wed (Circle in the Square, 1633 Broadway on 50th St between Broadway and Eighth Ave, 239 6200)

● The Song of Jacob Zulu: a drama by Tug Yourgrau based on the true story of a black South African caught between love for his family and a thirst for freedom. Cast includes a cappella singing group Ladysmith Black Mambazo (Plymouth Theatre, 236 West 45th St, 239 6200)

● The Sisters Rosensweig: Wendy Wasserstein's latest play, a comedy with serious undertones, about the reunion in London of three American Jewish sisters (Ethel Barrymore Theatre, 243 West 47th St, 239 6200)

● Candida: Shaw's romantic comedy in which a woman must decide between her self-confident minister husband and a sensitive love-sick poet. Final week (Roundabout Theatre, 1530 Broadway at 45th St, 869 8400)

● Putting It Together: American premiere of a collection of Stephen Sondheim's music, starring Julie Andrews. Till May 23 (City Center, 131 West 55th St, 581 1212)

● Jelly's Last Jam: Gregory Hines is the consummate leading man in a musical based on the life and times of Jelly Roll Morton, self-proclaimed inventor of jazz (Virginia Theater, 245 West 52nd St, 239 6200)

● Fool Moon: a comedy with physical humour, chaos and music, written by and starring David Shiner and Bill Irwin (Richard Rodgers Theatre, 226 West 46th St, 307 4100)

OPERA/DANCE

State Theater New York City Ballet's Spring season opens on Thurs with a two-week run of Sleeping Beauty, followed on May 4 by the opening gala of an eight-week Balanchine celebration. Performances are daily except Mon (870 5570)

Metropolitan Opera The final two weeks of the season are dominated by two Ring cycles, beginning with Das Rheingold tonight and Die Walküre tomorrow. Alfredo Kraus stars in Lucia di Lammermoor on Wed and Sat afternoon, and Veronica Villaroel is Violetta in La traviata on Fri (362 6000)

CONCERTS

Carnegie Hall Tonight: Hugo Wolff conducts St Paul Chamber Orchestra in works by Ravel, Prokofiev and Beethoven, with violin soloist Gil Shaham. Wed: Shura Cherkassky piano recital. Thurs: Tokyo String Quartet with Alicia de Larrocha. Fri: Krystian Zimerman piano recital. Next Mon: Dmitri Hvorostovsky song recital (247 7800)

Avery Fisher Hall Thurs, Fri morning, Sat, next Tues: Leonard Slatkin conducts New York Philharmonic Orchestra in world premiere of Ramey's Horn Concerto (Philip Myers), plus works by Haydn, Copland and Ravel (875 5030)

Alice Tully Hall Sat: Kronos Quartet. Sun: Marilyn Horne song recital (721 6500)

■ PARIS

MUSIC/DANCE

Opéra Bastille Tonight, Fri, next Mon: Richard Buckley conducts Robert Carsen's production of Manon Lescaut, with Miriam Gauci and Vasile Moldoveanu. Tomorrow, Thurs, Sat and next Tues: Friedemann Layer conducts Bob Wilson's production of Die Zauberflöte, with David Rendall and Cynthia Haymon (4473 1300)

Palais Garnier Tomorrow, Wed, Thurs, Fri: L'Esquisse, the Angers-based contemporary dance company of Joelle Bouvier and Régis Obadia, presents Plein Soleil, music by Louis Winsberg Jazz Quartet, costumes by Marie-Cecile Winling. April 28: first of six performances of Opéra Ballet's Homage to Balanchine (4742 5371)

Théâtre des Champs-Elysées Tomorrow: June Anderson song recital. Wed: Teresa Berganza. Fri: Jean-Claude Casadesus conducts Orchestre National de Lille in a Cocteau double bill, with Françoise Pollet in La Voix humaine. Sun morning: soloists of Vienna Chamber Orchestra play string sextets by Boccherini and Brahms (4720 3637)

Salle Pleyel Wed, Thurs, Fri: Pierre Boulez conducts Orchestre de Paris in the Prelude to Act one of Parsifal, Mahler's Kindertotenlieder (Waltraud Meier) and Schoenberg's Pelléas et Mélisande. Next Mon: Marek Janowski conducts first Paris performance of Strauss' Die Aegyptische Helena, with Anna Tomowa-Sintow in the title role (4563 0796)

Châtelet Thurs: Charles Dutoit conducts Orchestre National de France in Brahms' Violin Concerto (Itzhak Perlman) and First Symphony. Fri: Dutoit conducts first of four performances of Stéphane Braunschweig's new staging of Bartok's Bluebeard, with Csaba Airizier and Eva Marton (4028 2840)

Lionel Hampton Jazz Club New York-based singer J.J.Victoria and her group begin a two-week residency tonight. Daily except Sun till May 5, music from 22.30 (Hotel Meridien Paris Etoile, 81 Boulevard Gouvion St Cyr, tel 4068 3042)

THEATRE

● L'Homme qui: Peter Brook's latest theatre piece, based on neurologist Oliver Sacks' book The man who thought his wife was a hat. Daily except Sun and Mon (Bouffes du Nord 4607 3450)

● John Gabriel Borkman: Luc Bondy's staging of the Ibsen play. Daily except Mon till May 12 (Théâtre national de l'Odéon 4441 3636)

● Le Faiseur (The Doer): a Balzac rarity offering a comic view of humanity, directed by Jean-Paul Roussillon. Next performances April 20, 22, 25, 26, 28, 30 (Comédie Française 4015 0015)

● A recorded telephone guide to Paris entertainments is available in English by dialling 4720 8898

European Cable and Satellite Business TV

(All times are Central European Time)

MONDAY TO THURSDAY

Super Channel: European Business Today 0730; 2230

Monday Super Channel: West of Moscow 1230.

Super Channel: Financial Times Reports 0630

Wednesday Super Channel: Financial Times Reports 2130

Thursday Sky News: Financial Times Reports 2030; 0130

Friday Super Channel: European Business Today 0730; 2230

Sky News: Financial Times Reports 0530

Saturday Super Channel: Financial Times Reports 0930

Sky News: West of Moscow 1130; 2230

Sunday Super Channel: West of Moscow 1830

Super Channel: Financial Times Reports 1900

Sky News: West of Moscow 0230; 0530

Sky News: Financial Times Reports 1330; 2030

Arts Guide

Monday: Berlin, New York and Paris.

Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.

Wednesday: France, Germany, Scandanavia.

Thursday: Italy, Spain, Athens, London, Prague.

Friday: Exhibitions Guide.

Samuel Brittan

Maverick poses an interesting question

THERE HAVE been several attempts to provide British chancellors with independent outside advice. Nigel Lawson had a Group of Independent Economic Advisers (soon christened "Gooies"). This had the advantage that it discussed a wide range of economic questions and did not confine itself to forecasts. Its disadvantage was that its proceedings were oral and that no record was available to members.

Norman Lamont's Panel of Independent Forecasters has the advantage that its members submit papers which are published in a convenient volume. Its disadvantage is that the chancellor has tried to confine it to forecasts, a much overrated activity.

There is, however, a chance that the Lamont panel will turn out to be more interesting than either the chancellor or the official Treasury intended. This is because of its three maverick members – in alphabetical order, Tim Congdon, Patrick Minford, and Wynne Godley – who show no intention of confining themselves to a series of numerical guesses about GDP a few quarters ahead.

Indeed Congdon has just made a strong attack on the present fashion of simply looking for predictive indicators and has insisted on understanding the forces behind economic changes in a paper in the April issue of the Gerrard & National Economic Review. He is concerned to argue that excessive or deficient money balances are the *causes* of changes in the national income and not merely an advance warning.

But is not this what all monetarists believe? Apparently not. For Congdon's main argument is not with the orthodox panellists, but with fellow monetarists such as Minford who discuss the money supply mainly as an indicator of present or future activity. Indeed they have little option. For Minford's favoured indicator has been "M0", which is mainly notes and coins and which no one in the British debate has claimed is an actual cause of changes in activity or prices.

Although I have some sympathy for Minford on another issue – the supply side changes since 1979 – Congdon seems to me more nearly right on the monetary side. For if you can identify some of the causal processes you are much more likely to understand the economy and to avoid policy mistakes than if you simply go by the economic tea leaves.

None of this means that any school of monetarists has at last found a key to securing stability at low inflation. Congdon's own greatest triumph was his diagnosis of inflationary overheating in the mid-1980s – when neither Minford-type monetarists nor the official Treasury could see cause for concern.

Unfortunately, however, a detail of definition played a crucial element in Congdon's predictive success. His diagnosis was made in terms of £M3, which had been the target aggregate for well over a decade. But this aggregate was becoming more and more unsuitable as it omitted for instance building society deposits which were becoming an increasingly important part of the money supply, as Congdon himself came to recognise. The broader aggregate, M4, which takes these into account, and for which the Treasury now has a monitoring range, did not give nearly as clear cut a sign that something was wrong.

Some kind of test is now looming. M0 is above its monitoring range. What its most discerning supporters claim is that it is a good indicator of what is already happening. If they are right the turn-up in economic activity now taking place is much more vigorous than the modest sprouting of green shoots which is all that the government claims.

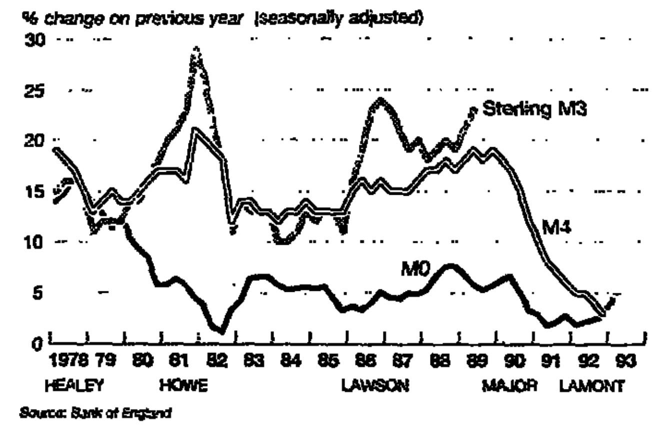
On the other hand, if the advocates of broad money targeting are right, whatever recovery is now happening will turn into dust and ashes before the year is out.

Congdon is, however, careful to avoid saying just this. He reminds us that "the drop in interest rates has made interest-bearing deposits a less attractive asset to hold . . . this behaviour may be able to stimulate demand for a few quarters even if money growth is modest".

One can agree with him that "eventually" faster broad money growth will be required to sustain recovery. But broad money growth is not something that either just happens. It would be most likely to occur if there is a rise in business borrowing which the government does not need to knock on the head by high interest rates. So no school of monetarists has got the causality quite right.

UK monetary growth

% change on previous year (seasonally adjusted)



Source: Bank of England

Northern light at the end of tunnel

Christopher Brown-Humes and **Karen Fossli** on a ray of hope in the Nordic banking crisis

In the depressed world of Nordic banking a little good news goes a long way. So the reduced losses for 1992 reported by Norway's commercial banks were warmly greeted by the country's central bank as an indication that the sector's five-year crisis might be drawing to an end.

But with similar optimism lacking in either Finland or Sweden, it is still too early to call the turn in the wider banking crisis which has ravaged the region.

The sector's difficulties are a result of financial deregulation throughout the region during of the late 1980s and the deep recession which followed it. Norway's banks were the first to feel the pain, and may be the first to recover, although they are still a long way from a sustained level of profitability. Banks in Sweden and Finland, meanwhile, have just reported their worst-ever results, and with both countries still in deep recession, there is little to suggest that the 1993 figures will be much better. The leading banks in neighbouring Denmark have also reported heavy losses for 1992.

The Danish banks, though, are better capitalised than those in other Nordic countries, and are likely to survive the crisis without state assistance. That is not the case in the other three countries, where governments have been forced to intervene to maintain domestic and foreign confidence in their financial systems and to ensure their banks continue to meet international capital adequacy requirements.

Huge sums of taxpayers' money have already been invested, with Sweden providing SKr67.5bn (£5.85bn) in support, Finland FM38bn (£4.43bn), and Norway NKr27bn (£2.57bn). Further substantial injections of government funds are likely as the process of restructuring and winding down problem loans continues. This is certain to put further strain on state finances at a time when budget deficits in Sweden, Finland and Norway are swelling in face of rising unemployment and falling tax revenues.

At the heart of the crisis is the financial deregulation of 1980s, which included the relaxation of foreign exchange restrictions and a lifting of official guidelines on lending. The subsequent credit expansion was further fuelled by advantageous tax rules for borrowers and a scramble for new business. But banks found themselves with little protection when recession arrived and many loans fell into default.

Despite such common factors, differences between the countries are significant. Norway's problems began in 1986 when oil prices sharply declined; Finland's only really became apparent in 1991 following the collapse of trade with the former Soviet Union; Sweden, where the crisis only fully materialised in 1992, has been hit most heavily by plunging real estate values.

Last year was the worst so far, with total write-offs of problem loans across the Nordic banking sector amounting to more than SKr100bn. Sweden was the most severely hit with credit losses of SKr70bn, followed by Finland with nearly SKr30bn. Norway's credit losses were halved last year, from NKr17bn in 1991 to NKr8.7 last year, largely because its problems began and were addressed earlier.

Such figures explain why governments have felt compelled to intervene. Failure to act would have brought the risk of a domestic credit crunch and shaken international confidence in their financial systems.

The result of the capital injections is that Christiania Bank and Fokus Bank, two of Norway's top three banks, are now 100 per cent state-owned while 70 per cent of the biggest bank, Den Norske Bank, is controlled by the government. Two of the five biggest banks in Sweden are fully in state hands, while the country's most prestigious bank, Skandinaviska Enskilda Banken, is negotiating a support package. In Finland, the two savings banks groups, Skopbank and Savings Bank of Finland, have been taken over by the state.

Relations between the banks and their new public-sector owners are proving tricky, particularly in those countries where governments otherwise committed to privatisation, as in Sweden and Finland, have been forced to extend state ownership.

"We want to reprivatise the banks but to what degree and at what speed, it is far too early to say," says the Norwegian finance minister Mr Sigbjorn Johnsen.

The rescues have been complicated by what are often conflicting objectives: getting the best value for the taxpayer, maintaining a level playing field within the sector and minimising state involvement.

Nordic banking blues

(+ profits -losses)

Sweden – 1992 operating results	SKr bn
SE Banken	-5.37
Nordbanken	-16.00
Handelsbanken	-0.84

Norway – 1992 operating results	NKr bn
Den Norske Bank	-3.06
Christiania Bank	+1.58
Fokus	-2.06

Finland – 1992 operating results	FM bn
Kansallis-Osake-Pankki	-2.63
Unitas	-2.00
Skopbank	-3.46

At the heart of the banking crisis is financial deregulation over the past decade

A good illustration of the dilemma is provided by the current talks between SE Banken and the Swedish government. The finance ministry expects the bank to do as much as possible to solve its own problems by raising capital from private sources. But the bank believes that before it can attract private capital the public support it can expect to receive must be quantified.

There is little doubt that private share capital will be required to get Nordic banks back on their feet. But investors will be wary of ploughing more money into institutions which have already cost them a great deal and where dividend prospects are uncertain. None of the leading banks paid a dividend on their ordinary shares in 1992.

The alternative to raising new capital is simply to slash lending activities, but that would mean cutting back on loans at the very time when fresh financing is needed to support economic recovery.

The prospect of raising private capital is not entirely gloomy, however. Kansallis-Osake-Pankki, Finland's leading commercial bank, has been the first of the big banks in the region to launch a share issue, and its current FM930m offer has been well received.

Recovery could also be assisted by rationalisation and mergers. In Norway, restructuring is already underway, with the merger of Bergen Bank and Den norske Creditbank. It is likely to gain momentum as the most unprofitable portions of the banks' business – such as property portfolios – continue to be hived off and the process of returning banks to the private sector begins.

In Finland a merger between KOP and the savings banks groups is currently being considered. Norway has commissioned the UK-based consultancy firm, Davis International Banking Consultants, to look at its banking problems, and expects recommendations that will form the basis of a restructuring programme to be presented to parliament in mid-May.

However, sustained recovery in the banking sector largely hinges on broader economic recovery. The worst may be over in some sectors of the economy, but unemployment is rising. Joblessness in Norway, at 8.7 per cent, is at its highest level since the second world war high, while in Finland more than 18 per cent of the workforce is out of work. In Sweden, official unemployment stands at 7 per cent, but the figure would be much greater if those in training schemes were included.

With so many people out of work, many are having difficulties repaying loans. The corporate sector, meanwhile, is squeezed by low demand and real interest rates that remain high. In Sweden the central bank's marginal interest rate is being held at 9.75 per cent to squeeze inflation and protect the value of the krona. But the Finnish central bank reduced its base rate to 7.5 per cent in February, while in Norway the central bank this year has gradually eased its official rate to 8.5 per cent.

Most analysts believe the leading banks in Sweden and Finland face at least two more years of heavy write-offs of problem loans, although recovery may come more quickly in Norway. "1993 will be a better year for the Norwegian banks, but the problems in Swedish and Finnish banks started later, so the real recovery will not be evident as early," said Mr Torstein Joerstad, a bond credit analyst at UBS Limited in London. Of the big Swedish banks, Handelsbanken is an exception and it may return to profit as early as this year.

Yet even if the Nordic banking sector rebounds during this year and next, the region's financial problems will not be resolved soon. The task of rebuilding financial strength, restructuring and winding-down problem credits is likely to last into the next century.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. *Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution*

Nothing comic about wasted initiatives

From Mr Ansel Harris.

Sir, The £1.5bn Training and Enterprise Councils initiative was launched in the UK on March 10 1989 – coincidentally Comic Relief day. For many in the private sector involved in some of the earlier initiatives such as the Small Firms Service, Enterprise Agencies, Business in the Community, the Business and Education Initiative, the Training Commission, the Manpower Services commission, and Pickup (Professional, Industrial and Commercial Updating Programme), the Tecs did, indeed, promise relief.

The Tecs were intended to rationalise what the then chairman of Courtauld's described as "the great variety of initiatives now around". Many of us involved in them greeted them with sceptical optimism. At least an umbrella organisation was in place and it should be given a chance. You yourselves had doubts. And within two years of the Tecs going live your own survey described "widespread dissatisfaction over the levels of government funding". On February 28 1992 (Management: "Making it a game of skill, not of luck") you reported "a great deal of frustration over the inability of the Tecs to fulfil the valuable role for which they were established".

You now report ("Pilot 'one-stop' business advice centres chosen", April 15) a further umbrella initiative. Five Tecs and other bodies "are to carry out a £500,000 study part funded by the government. . .aimed at establishing a central London one-stop shop" (business advice centre).

If the costs of these abortive initiatives were totalled, the EBRD extravagances would pale into insignificance.

Ansel Harris,
MBA Partners,
23 Ferncroft Avenue,
London NW3 7PG

Trade route through Turkey

From Mr Ahmet Ersoy.

Sir, Mr Steve LeVine is not entirely accurate when he says that Armenia's efforts to find a trade route through Turkey have been hampered by that country's long enmity with Armenia ("Armenia battles on two fronts," April 7).

In fact a certain amount of trade from the Caucasus and central Asia has already reached the outside world through the Turkish Black Sea port of Trabzon. Since Armenia declared its independence nearly two years ago, Turkey has worked hard at building up good relations with this country.

This involved a good deal of pragmatism, not least since it is only few years since Armenian terrorists gunned down more than 40 Turkish diplomats, members of their families, and staff in cold blood in cities across the world. Some of the Armenian leadership have welcomed Turkey's attitude.

Turkey watches with concern the Armenian attacks which first initiated in Nagorny Karabagh and later escalated in other parts of Azberbaijani territories, and wishes that the killings and the bloodshed are immediately stopped.

In spite of this, it is hard to find anyone in Ankara who does not believe that there is much more to be gained by co-operation, including trade, with Armenia.

Ahmet Ersoy,
press counsellor,
Turkish Embassy,
43 Belgrave Square,
London SW1X 8PA

EBRD: a meaningless comparison of estimates and the need for broader remit

From Mr David H Rumley.

Sir, On reading the article on the Bank of European Reconstruction and Development, and its London headquarters ("The bank that like to say yes – to itself", April 13), I was surprised to find a figure I had given as a general estimate for fitting out a city institution building was being used as part of a detailed article investigating a particular project.

Though I was pleased to see reference in the article to the estimate containing neither furnishings nor mechanical and electrical equipment, its use as a comparison to the very specific criteria of the EBRD's headquarters renders it totally meaningless.

When looking at an individual case such as the EBRD's headquarters, there is a whole range of specific needs that should be considered. The items generally include security, boardrooms, computer and telecommunications facilities, conference halls, etc, all of which add considerably to the cost of normal fitting out.

Gleeds has worked on a number of projects throughout Europe with the EBRD. Its very use of such firms as Gleeds points to its acknowledgement of the importance of the correct apportionment and control of funds.

David H Rumley,
senior partner,
Gleeds,
chartered quantity surveyors,
Trinity House,
Church Road,
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From Mr Roger Manser.

Sir, The major failing of the European Bank for Reconstruction and Development in the ex-Soviet Union and eastern Europe was not discussed in your article ("Spending at the European Bank", April 13). It relates to the rules, approved by its founder governments, that 60 per cent of the loans go to private-sector projects and 40 per cent to the public sector.

Private sector loans/equity investments are in effect only being made by the EBRD to bankable projects with a substantial export component and with a western joint venture partner. However, western investors do not want to invest because the risks are too high and few east European enterprises have so far been privatised. In essence there are too few good projects to fund.

To be successful, the bank needs to be able to fund smaller projects run by state-owned enterprises meeting local as well as export needs. It needs to be pro-active to be able to fund feasibility studies and then bring in one or several western joint venture partners to manage and restructure the operation.

Roger Manser,
editor, Sulphur,
31 Mount Pleasant,
London WC1X 0AD

Open up

From Mr Charles Pickthorn.

Your report, "ERM does not need reform, say central bankers" (April 13), states: "The secretive [EC] monetary committee, which is unlikely to publish its analysis and recommendations, is believed to oppose significant changes." Why should it be secretive? Why should not its analysis and recommendations be published? Are we allowed to know the names of the Titans who compose the committee?

Charles Pickthorn,
Manor House,
Nunney, Nr Frome,
Somerset BA11 4NJ

Keep talent from emigrating

From Mr Amory Hall.

Sir, Edward Mortimer argues persuasively ("Convenient cracks in the wall", April 15) for an EC "managed immigration" policy. But by syphoning off those with "the needed skills and allowing them to come in legally", western Europe would be depriving eastern Europe and the former Soviet Union (FSU) of precisely the individuals – hard-working, youthful and skilled – that are essential to economic regeneration in these regions. More than 8,000 Russian scientists have emigrated to New York alone in the last two years. Multiply that across the entire FSU's territory and sphere of influence, and it is clear that managed immigration will degrade even further the ability of the ex-communist world ever to catch up with the west, which will simply feed the emigration cycle later on. A more powerful case can be made for targeting western aid to jobs that "anchor" talented people from the FSU where they can best do good – in their home countries.

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FINANCIAL TIMES

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Monday April 19 1993

Mr Clinton's trade results

THE WORLD has been waiting several months to discover Mr Clinton's trade policy. Now, after his meeting with the Japanese prime minister, it knows what it is. Mr Clinton believes in managed trade. Many will try to play the dangers down, noting that US demands are limited to its trade with Japan. They may even feel pleased that Japan is under attack. Such complacency would prove a mistake. "Results-oriented" trade would not be limited to trade with Japan. *Nor would its* effects be confined to the relationship between the US and Japan. Its *poison would spread* far wider.

The president's complaints start with Japan's bilateral surplus of $49bn (£32bn), which he deems "unacceptable". But he is not concerned with that surplus alone. He wants to obtain specific results in specific sectors of the economy as well. But the *president is also supposed* to believe in free trade. How, one wonders, can someone who believes in free trade fail to see that bilateral imbalances are a natural consequence of multilateral trade? How can he fail to realise that a market economy can only generate government-mandated outcomes after it ceases to be a market economy.

If this new approach to trade were indeed restricted to Japan, many might feel it has much to commend it. The Japanese political system needs to be shaken out of its current torpor. The world also needs imaginative Japanese political leadership. For that matter, so does Japan. The Clinton *démarche* will certainly disturb Japanese politics. Perhaps it will galvanise Japan to a suitably creative response.

Unfortunately for those who feel this way, the effects of the envisaged approach are unlikely to be restricted to US-Japanese relations. One reason is *that it would* impair the integrity of Gatt rules and norms. The figleaf of antidumping covered the nakedness of the semiconductor pact. If the US were to act without such cover, why *should others* take these rules seriously? Yet another reason is that the European Community would seek to follow any precedent set by the US. Sales would then be won by competitive coercion, not by market competition. A final reason is that these "voluntary *import expansions*", as Professor Jagdish Bhagwati has called them, would spread to trade with other countries, just as voluntary export restraints started with Japanese exports and spread to the exports of other countries. The ideal of a rules-governed, global market economy – *the aim* of half a century of trade diplomacy – would be in ruins.

Japan should *suggest* a powerful Gatt mechanism as an alternative to managed trade. If this idea does not divert the US from its course, others must come to Japan's aid. They should do so regardless of what they feel about Japan, because more than its fate is at stake. Japan must say "no" to import targets. It will need the help of other major trading powers if it is to make its "no" stick.

Landing capital

THE WORLD BANK is being usurped. Its reports, while still *interesting reading, no longer* provide the only authoritative judgment of the performance and prospects of developing countries. In these days of increasingly mobile global capital flows, the judgments of international investors are more visible, and more damning *for those countries that fail to* make the grade.

The World Bank's latest report, Global Economic Prospects and the Developing Countries, provides a fascinating appraisal of the recent explosion in private-sector financial flows to developing *countries, both portfolio capital* and foreign direct investment (FDI). The main success story of recent years is the emergence of Latin America, phoenix-like, from the ashes of the commercial bank debt crisis of the early 1980s. It now has a chance of joining east Asia as a second engine of developing country growth, with the Bank expecting Latin American growth *to double this decade compared* with the 1980s.

The combination of debt reduction with liberal financial and trade policies, some of which would put the US and the European Community to shame, has transformed investment opportunities *for global* investors in Latin America. Flows of portfolio equity capital to Latin America have grown from $434m (£287m) in 1989 to $5.6bn in 1992. Mexico, Brazil and Argentina, along with China, Malaysia and Thailand, are also the prime beneficiaries of the renewed flow of foreign direct investment to developing countries. *This has* risen by 50 per cent since 1990 and now accounts for over a fifth of global FDI, compared with 12 per cent in 1987.

Greater exposure to international capital flows brings costs too. Changes in the world economy, or in the judgment of investors *about domestic policies, can* have devastating effects on economic management for countries dependent on short-term portfolio capital. These judgments are also a fact of developed country life, as the British government can testify. It is better to respond to market fears about the dangers of an overvalued real exchange rate or a fiscal crisis than wait for the damage *to be done*.

The answer cannot be autarky. For, as the Bank points out, the alternative to financial integration is not self-sufficiency but capital flight. Much of the new capital inflow into Latin America is, in fact, the return of capital that had *taken wing when domestic* prospects looked particularly bleak.

By contrast, sub-Saharan Africa is still trapped in the vicious circle of heavy external debts, external non-viability and domestic economic decline. The Bank estimates that the stock of flight capital from sub-Saharan Africa is a staggering 80 per cent of gross domestic product. Only a package of debt reduction and *radical* domestic reform can revive prospects of these unhappy countries. One of the World Bank's prime tasks remains unfulfilled.

The centre holds

THE FUNERAL today of Mr Chris Hani, the assassinated African National Congress leader, is as momentous an event as any in the country's history. When Mr Nelson Mandela walked to freedom, millions of black South Africans welcomed an icon who had come to life. Three violent years later, *they are mourning* a man they see as a martyr, and celebration has turned to frustration and bitterness, anger and *sorrow*.

These are times fraught with danger: extremists have drawn blood, black township youth are impatient for change, and the ANC's mass action campaign to press for early elections will inevitably raise the temperature. So *far, however, the* political centre holds.

There have been 28 politically related deaths since the *assassination*. It is 28 deaths too many; but well below the weekly average so far this year. Last Thursday's tragedy in Soweto, when four *demonstrators* were killed and hundreds injured after police opened fire, illustrated again that the security forces' first *instinct* is to shoot, often without provoca*tion*.

But on a day when more than 1m protesters took to the *streets*, tragedy could have become catastrophe were it not for the marchers' *restraint*, the presence of ANC marshalls, and the moderating role of the country's political leaders.

Mr Mandela has been at his best, striking the right note in a television address to the nation last Wednesday as important for *its symbolism as its* substance. It not only confirmed his elder statesman status that, for a while *at least*, transcended his party loyalty; it was recognition of the reality that underlies the negotiating process: white South Africa can no longer govern on its own.

For his part, President F W de Klerk has been treading a tightrope, resisting calls for a crackdown and countrywide state of emergency from the right, but reinforcing security where needed. And *Chief Mangosuthu* Buthelezi, leader of the Inkatha Freedom Party, accompanied his tribute to Mr Hani with an appeal *for calm*.

What above all may have kept black anger in check, however, is the progress apparently made at the negotiating table. The expectation that the talks, due to resume soon, will set a date for elections was a vital safety valve.

Optimism *may be misplaced*, for key issues – control of the security forces during the extended transition; how executive power is to be shared in the envisaged *coalition – have yet* to be resolved. Additionally, Chief Buthelezi, who seeks what amounts to autonomy for Natal, has not been accommodated.

It is well nigh inevitable that there will be further strains on stability, whether assassinations or political violence. But unless the next round of talks produce tangible progress, there will be no safety valve. The real test of South Africa's centre may be yet to come.

Israel's cautious approach to Middle East talks could strengthen the hand of extremists, says Roger Matthews

Doubts about the price of peace

Four months of Arab protest have proved largely fruitless, while Yitzhak Rabin, right, inspires only disillusion

Such is the nature of Middle East politics that the closer Israel gets to achieving most of what it has sought since independence, the less appealing is the prospect of having to pay the political price.

The extent to which its Arab neighbours, for four decades implacable enemies, have become supplicants has never been more obvious. Their refusal to resume negotiations with Israel in Washington as requested by the US, cannot disguise *the fact that* eventually, probably within a few days, they will be back at the table.

Four months of protests and appeals to the international community over the mass deportation by Israel of Palestinians from the occupied West Bank and Gaza, and warnings that the process could be close to collapse, has achieved little. Just how little was emphasised yes*terday by Israel's refusal to con*sider doing anything more to make it easier for the Arab delegations to continue negotiations.

No country is more anxious to resume than Syria, so recently the main standard-bearer of anti-Israel rhetoric, and all are propelled by the same reluctant acceptance that the gains needed to bolster their own domestic political credibility will only come through negotiation.

Yet the sombre mood in Jerusalem appears to recognise little of this. Eighteen *months* into the peace process, the question that will increasingly have to be addressed is *whether the Israeli electorate* feels the need to pay any sizeable price for a formal peace. Or, put another way, whether an Israeli government feels it can ask that price and still be confident of surviving.

The doubts have been fostered in part by the widespread public disillusionment with *Mr* Yitzhak Rabin, the Israeli prime minister. He won last summer's general election on *the dual pledge, appealing* to both hawks and doves, that he would deliver peace and security. So far, he has done neither.

Worse than that, by seeking to fulfil his pledge to crush Arab defiance in the occupied territories, Mr Rabin may have set back the prospects *of reaching an agreement* with more moderate Palestinians, enhanced the status of Hamas and Islamic Jihad, the two factions opposed to the entire process, and contributed to the sense of insecurity within Israel itself.

Nothing has done more to heighten this than the wave of random stabbings in Israel carried out by individual Arabs, acting for the most part without apparent political direction. The attacks appear to spring from the same well of frustration that has marked the relentless decline of the Gaza Strip into impoverished semi-anarchy.

More Israelis have officially been encouraged to carry guns, more *Jewish settlers in the occupied* territories have extracted their own revenge, and the government has *now imposed an indefinite* ban on most Palestinians entering Israel proper, thereby cutting them off from their work and worsening economic conditions in the territories.

At the same time, Mr Rabin and his colleagues insist that the best way to break the cycle of violence is by *improving living conditions in* the West Bank and Gaza and by negotiating a peace agreement. But even if the public fully accepted the argument, it would not lessen the demand that security has to be the first priority. And Mr Rabin has to assume that the more he gives at *the negotiating table*, the more vociferous his domestic opponents will become and the more violent *extremist Arabs will be* in their efforts to derail the entire process.

How courageous Mr Rabin will be in attempting to break out of this dilemma should become clear in the next few weeks. For the first time since the the opening conference in October 1991, this next and ninth *negotiating session* will be open-ended. President Bill Clinton has also promised that the US will be a "*full partner*" in the process, which means that, unlike the previous Bush administration, it will actively seek to bridge differences between the delegations and put forward its own proposals.

Nowhere could this *approach bear fruit* more quickly than in the bilateral Syrian-Israeli negotiations where a substantial degree of understanding has already been reached. Mr Rabin and his colleagues know that if they agree to a full withdrawal from the Golan Heights, occupied in 1967, Syria is prepared to sign a peace treaty.

"*The issue is now largely technical*," said a senior Egyptian official. "It is a question of timing, of security arrangements, of agreeing what, from a Syrian point of view amounts to full withdrawal, and from Israel's position, the content and commitment to a full peace. But *the essence of what Syria is* offering is thoroughly understood."

The Israeli government, however, is very far from throwing its hat into the air over an offer which, even two years ago, would have been greeted with incredulity. A generally defensive Mr Rabin understandably wants to delay the moment that he stirs the wrath of the rightwing in general and the *settler community in particular*.

In Mr Binjamin Netanyahu, the leader of the opposition Likud, he faces an opponent well versed in stoking public fears with simplistic assertions. Nothing better illustrated Mr Netanyahu's style than his opposition to Mr Rabin's concession last week that Mr Faisal al-Husseini, who has been the key behind-the-scenes co-ordinator for the *Palestinians*, could become the leader of their delegation.

Mr al-Husseini comes from East Jerusalem. According to Mr Netanyahu, merely talking to him indicated that Israel was willing to consider handing back the eastern half of the holy city, captured by Israel in 1967 and subsequently annexed. However gross the misrepresentation of Mr Rabin's *intentions*, it is but a small foretaste of what will follow should the prime minister move towards a deal on the Golan Heights, including the removal of nearly 10,000 Jewish settlers.

Such a move would simultaneously sound alarm bells through*out the West Bank and Gaza*, where well over 100,000 Jews have settled, and which for Mr Netanyahu and the Likud is an essential God-given part of Israel. Not only would the settlers and Likud fight concessions to the Palestinians which even hinted at any eventual loss of control, but will hope within three years to have captured the government. The new electoral system, under which *the prime minister* will directly elected, is thought likely to favour the younger Mr Netanyahu and his polished television skills.

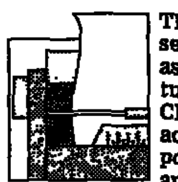
It is another irony of Middle East politics that increasingly Mr Rabin is finding an identity of interests with Mr Yassir Arafat and the Palestine Liberation Organisation. Labour leaders acknowledge that progress in the peace negotiations would provide the platform needed to win the next election. Mr Arafat similarly needs urgently to show *the benefit of negotiations* if he is to halt the erosion of support for the PLO in the occupied territories.

President Clinton and Mr Warren Christopher, the secretary of state, their plate heaped high with complex international crises, are ultimately stuck with the task of making the two sides understand their mutual dependence. If neither can publicly concede to the other, they can separately deliver concessions to Mr Clinton as Egypt and Israel did for President Carter during the *Camp David negotiations in 1978*.

Successive US administrations have operated on the basis that Israel should be reassured and often rewarded in advance for offers of co-operation in the future. Mr Rabin's election victory was greeted by President Bush last August with US pledges to guarantee $10bn (£6.6bn) in loans. His meeting with Mr Clinton last month brought reassuring political *reaffirmation* of strategic co-operation, and assurances that the annual $3bn in military and civil aid would continue.

Mr Clinton announced then that he was convinced Mr Rabin was ready to take chances for peace. However, the interpretation of what constitutes political risk may not translate well from Washington to Jerusalem, and Mr Rabin so far has shown little enthusiasm for anything more than the most narrow definition. Until he broadens its scope, all parties to the peace process will remain vulnerable to the extremists working for its collapse.

Private functions in public education



PERSONAL VIEW

THE UK's private sector is being asked to help build tunnels under the Channel, railways across London and possibly *even jails* and hospitals. It is unfortunate, then, that it is being made to feel so unwelcome in the sector that needs it most – state education.

There are plenty of good reasons *for thinking that there is a role for* government in education. But all these reasons lead to the same conclusion – *the* primary government role should be to pay the bills. The state need not be in the business of running schools or even in making important educational decisions. These are both activities at which the authorities – at local and national level – have failed to excel, and *both can perfectly* well be devolved to private agents. In fashionable jargon, splitting the functions of educational *purchasing* from the functions of educational provision could improve the incentives of suppliers and improve the allocation of resources.

The key to creating a more privatised system of education lies in the management of capacity. It is decisions about which schools should open, which should expand and which *should close that need to be* delegated to mechanisms of the marketplace, rather than to the might of government. The fact that J Sainsbury has been able to open new stores, and that the Co-Op has had to close them, has at least fuelled a process of improvement in retailing standards over *many* years. If only the same improvements in schools were evident over that period.

Unfortunately, if we want capacity decisions of schools to be made on a similar basis to those of supermarkets the management of capacity needs to be taken out of the hands of the authorities. And so must the discretionary allocation of capital.

New schools should be allowed to open – as long as they can attract a *licence from educational inspectors* – and old schools should be allowed to expand, without the permission of the secretary of state. In *either* case, schools should be allowed to use their own capital, or sometimes borrow it from the state. If they can then attract enough pupils, they should be rewarded with an annual return large enough to compensate *their lenders for the cost of capital*.

Meanwhile, existing state schools should be told to use their assets efficiently, and that if they fail to educate the number of students for which their capital was designed – if they become overendowed with capital for their size – they will face a penalty in the form of a reduced maintenance grant. It would not be impossible to design practical systems of financial control that *deal with the undoubted* complexities of the education sector, while nevertheless retaining the essential underlying *mechanisms* that ensure dynamism in the supermarket sector.

The key to creating a more privatised education system lies in the management of capacity

Unfortunately, the 1993 Education Bill leaves control of all capital in the hands of administration. The reason that the Department for *Education feels such a strong* need to maintain control of schools' capacity is its near obsession with what it calls surplus places. Quite apart from the fact that in a system of parental choice, it is inevitable that there have to be surplus places (it would otherwise be quite fortu*itous if a significant proportion* of parents could exercise much of a choice), the method chosen for deal*ing with surplus capacity is hope*lessly overcentralised.

If private promoters were to be encouraged into schools, perhaps using their own capital, what would the state have to pay them? At the moment, government annually spends about £2,000 a student on the running costs involved in teaching, with some small portion of this devoted to capital investment; but the state also devotes a stock of about £8,000 worth of land, buildings and equipment to each student. *At a 10 per cent rate of return on* that capital, the true "market price" of educational services in the state sector is near £3,000 a head. At that rate, private capital may find it attractive to enter the market.

Unfortunately, the thrust of John *Patten's Education Bill is not an* attempt to replace local education authorities with private agents in education *decision-making, but to* replace local education authorities with John Patten. It is possible that the superior administrative skills of Mr Patten and his agents will exert a beneficial influence on the schools system, but it is equally possible that his detachment from educa*tional realities will undermine* it. Replacing one set of administrators with another set of administrators is not as effective as dispensing with the administrators altogether.

Evan Davis

The author has just published a report, "Schools and the State", available from the Social Market Foundation, 20 Queen Anne's Gate, London SW1H 9AA

OBSERVER

Updating an official image

■ The idea of John Major hosting regular White House-style televised press conferences is rather appealing at first sight.

The nation's leader could pick and choose his questioners, if not his questions, confident that the nation would hear his answers rather than some biased hack's version of them.

The need for a change does not result solely from prime ministerial concern about the bad press he has been getting *lately. He feels* that the present "lobby" system is outdated and inappropriate for a government supposedly commited to openness. The question is: how can the system be reformed?

The biggest stumbling block is sensitivity over the convention *that ministers are accountable to* parliament. MPs do not like hearing about important announcements being made publicly to newspapers or on television before they are *told*.

The other problem, which might not yet have been noticed in Downing Street, is that formal White House press conferences appear to be a thing of the past under the new administration in Washington.

Indeed, it is rather ironic that whilst Bill Clinton can hold his own better than most at formal press conferences, his media advisers are now advocating a much more targeted approach to getting the presidential message across.

All out

■ *So why has* Britain's Engineering Union abandoned its old stomping ground of Eastbourne in favour of the more bracing atmosphere of Llandudno for its annual conference this week?

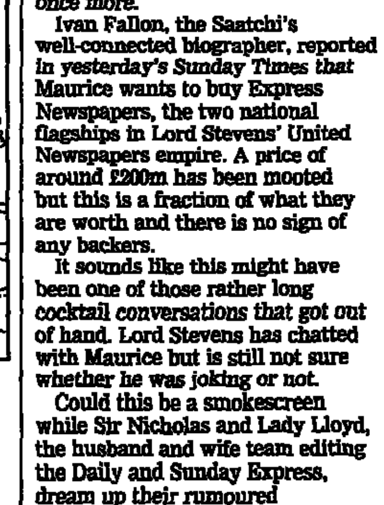
The official line is that the facilities are much better in North Wales. But Observer hears that the decision to give Eastbourne a miss was strengthened by the embarrassing antics of the mayor of the popular Sussex resort at this year's conference of the union's women.

The sisters were celebrating their 70th such conference, but their festive mood turned sour after His Worship's opening remarks. "*Looking at you, I think you must* have all attended the first such conference," he joked.

The real thing

■ Is it true that things really go better with Coke? That seems to be the assumption of Herb Allen, president of Allen & Company, the slick New York-based investment bank to the entertainment industry.

Allen has recruited the 66-year-old Donald Keough, the president of Coca-Cola who retired last week after 40 years with the world's famous soft drinks firm,



'Any friend of the US dollar is a friend of mine'

to be chairman of Allen & Company.

He joins a cast of executives who were previously involved with Columbia Pictures, the Hollywood studio that Coca-Cola sold to Sony in 1988. Last year Coca-Cola hired as a media and advertising consultant Allen's friend Mike Ovitz, whose Creative Artists Agency is the most influential talent firm in Hollywood.

Dream time

■ *Things must be looking* up at Saatchi & Saatchi, the worldwide advertising giant. The Saatchi Brothers are starting to generate Big Ideas again. Maurice Saatchi, who once toyed with the idea of buying Midland Bank for £3bn, appears to be getting itchy fingers once more.

Ivan Fallon, the Saatchi's well-connected biographer, reported *in yesterday's Sunday Times that* Maurice wants to buy Express Newspapers, the two national flagships in Lord Stevens' United Newspapers empire. A price of around £200m has been mooted but this is a fraction of what they are worth and there is no sign of any backers.

It sounds like this might have been one of those rather long *cocktail conversations that got out* of hand. Lord Stevens has chatted with Maurice but is still not sure whether he was joking or not.

Could this be a smokescreen while Sir Nicholas and Lady Lloyd, the husband and wife team editing the Daily and Sunday Express, dream up their rumoured management buy-out?

Olympic bid?

■ One of the mysteries of the 13-year-old London Marathon is why Chris Brasher, the Olympic gold medallist who has masterminded the highly popular event from the very beginning, has never been honoured.

In fact it seems that he was offered a gong back in the 1980s but turned it down on the grounds that he didn't like Margaret Thatcher, the prime minister at the time. "That bloody woman did nothing for British sport," says Brasher in yesterday's Mail on Sunday. And in case the current sport-loving prime minister thinks of renewing the offer, Brasher is of the view that as he has to deal *with politicians one shouldn't* accept honours from people you deal with. How honest.

However, there is a theory abroad – not denied by Brasher himself – that he would like the chairmanship of the British Olympic Association if it was on offer. The problem is that he is now 64 and the new BOA chief Craig Reedie a mere 51 and digging in *for a decade's service*.

It has been rumoured that Brasher's Olympic ambitions are now sublimated into vigorous support for Manchester's bid to stage the 2000 Games. But if Manchester gets the nod in September, Brasher could re-emerge as a runner for the top job on the grounds that it would be nice to have an Olympian in charge, especially if Britain is going to host the turn-of-the-century games.

Inside gossip

■ An Aberdonian merchant returning from a week-long business trip to London was asked by colleagues what the capital was like. "A fine city," he replied.

"*And how are the English to do* business with?" they questioned.

"I couldn't say, I was dealing at director level."

FINANCIAL TIMES
Monday April 19 1993

Assassinated ANC leader to be buried today as conspiracy evidence mounts

Thousands pay respects to Hani

By Patti Waldmeir in Johannesburg

TENS OF thousands of grieving South African blacks paid their last respects yesterday to Mr Chris Hani, the assassinated guerrilla leader, as evidence emerged that his death may have been part of a right-wing conspiracy to destabilise democracy talks.

Mr Hani, idolised by township blacks as one of the greatest heroes of their liberation struggle, lay in state throughout the day in an open casket at a soccer stadium outside Soweto. As the 30,000-strong crowd sang songs in praise of Umkhonto we Sizwe (Spear of the Nation), the African National Congress military wing, ANC leaders filed past the coffin of the man who once commanded Umkhonto in exile. Some touched the body.

The elder statesmen of the ANC, former leader Mr Oliver Tambo and long-time political prisoner Mr Walter Sisulu, led the sad cortege. Mr Nelson Mandela viewed the body last night.

After an all-night vigil at the stadium, Mr Hani's body will be buried later today in the mainly white, working-class town of Boksburg, where he was shot by a white assassin on April 10. It will be one of the largest political events ever in South Africa, and may spark clashes between white residents and black mourners.

As Boksburg residents prepared for today's funeral, barricading homes and drafting in friends to protect their property, police were interrogating a prominent right-wing white, Mr Clive Derby-Lewis, who they said was a suspect in Mr Hani's assassination.

Mr Derby-Lewis is a leading figure in the Conservative Party, the official parliamentary opposition, and a member of the advisory President's Council, part of the executive branch of government.

Mr Derby-Lewis regularly made news with his racist comments, including an incident when he commented, "what a pity" on hearing an aircraft had braked to avoid a black man on the runway at Johannesburg airport.

His arrest raises fears that the murder was part of a conspiracy which extends well beyond the lunatic white fringe – the other suspect, Mr Janusz Walus, is a member of the ultra-right neo-Nazi group, the Afrikaner Weerstandsbeweging (Afrikaner Resistance Movement) – to the top of the right-wing establishment.

Political analysts say the involvement of the Conservative Party, is far more worrying than that of the AWB, a militarist organisation which has vowed to carry out what it calls the "Third Boer War" against blacks.

ANC guerrillas carry the coffin of assassinated black activist Chris Hani into a Soweto soccer stadium

Mandela in the spotlight, Page 6
Editorial Comment, Page 13
Derek Keys interview, Back page, Sect II

Matrix purchaser accused of default

By Richard Donkin

THE Iraqi-owned company that sold Matrix Churchill, the former Coventry machine tool manufacturer, two years ago is taking legal action against the buyer for allegedly defaulting on a staged payment due in January.

Matrix Churchill was bought from TMG Engineering, its Iraqi-owned parent, by Automation Investments, the holding company for BSA Tools, the Birmingham lathe maker, in February 1991 at the time of the Gulf war.

The deal was complicated, hampered by the imposition of UN sanctions and the freezing of Iraqi assets in the UK.

Details of the deal have never been disclosed by the buyer, but it is understood to have involved a £1.8m ($2.8m) payment due at the end of January with a further payment of £1.2m if the net asset value of the company rose above £6m at a certain stage.

The payments would have gone into a bank account supervised by the Bank of England. The account would remain frozen until the sanctions against Iraq were lifted, but the sellers say that they have not yet received any payment from Automation Investments.

Mr Keith Bailey, chairman of Automation Investments, said an initial consideration was paid for the company but he could not give details at present.

Mr Bailey said: "I can't tell you precisely what has been paid simply because the contract has clauses of confidentiality."

He added: "I don't think there is anything owing to them under the terms of the contract at the moment."

Mr Robert Koshaba, who is assisting TMG, said: "I am not aware of one single penny that has been paid." He confirmed that legal action had been taken under British civil law and expected a hearing next month. The action was between TMG and Automation Investments.

"There is money to be paid and it hasn't been paid," he said.

He added: "I think the Iraqi owners were very reasonable. They got kicked out, they sold the damned thing and the least they would have expected is that they get paid."

Matrix Churchill itself was placed in the hands of receivers in July 1992.

Fiat may co-operate with magistrates over corruption

By Haig Simonian in Milan

ITALY'S political corruption scandal is poised to take a new turn, with signs of an agreement by Fiat, the country's biggest private sector company, to co-operate voluntarily with Milan magistrates.

The accord, reached between magistrates and the group's lawyers at a lengthy weekend meeting, may see Mr Cesare Romiti, Fiat's chief executive, testifying before magistrates this week.

It represents a climbdown by Fiat, which has been increasingly implicated in allegations of bribes over public sector orders. At least seven senior executives have become embroiled in the investigations, including Mr Giorgio Garuzzo, Fiat's chief operating officer, and Mr Francesco Paolo Mattioli, chief financial officer.

Before the weekend agreement, magistrates appeared poised to issue further cautionary warrants, including some for unspecified Fiat managers. It is believed that the warrants, covering contracts for the Enel state electricity generating authority and the state railways, have been temporarily rescinded.

Mr Gianni Agnelli, Fiat's chairman, at the weekend admitted his company's involvement in doubtful practices. He told a conference of the Confindustria employers' federation: "At Fiat, too, some episodes of incorrect mixing with the political system have been discovered."

However, Mr Agnelli, when speaking in Venice, tried to draw a distinction between individuals and companies drawn into the corruption scandal: "It is desirable that the inquiries should define as soon as possible the real significance of the episodes concerning us or other companies, and distinguish between those who have been serious industrialists and those, by contrast, who have based their fortunes almost exclusively on systematic collusion with the politicians.

"Fiat's heart is that of a company committed to free and strong competition in the market-place."

It remains to be seen how Fiat will co-operate with magistrates. The inquiries have touched construction, with investigations of the Cogefar-Impresit building arm; railway equipment; gas turbines, with allegations of bribes to politicians on Enel orders; and buses, where the group's Iveco commercial vehicles subsidiary is being investigated for alleged payments for orders from the city of Milan.

Turkey faces constitutional crisis

Continued from Page 1

look on him as informal patron of their campaign for greater rights. His death comes as the government tries to frame a response to the recent Kurdish ceasefire call.

The presidency is a largely ceremonial post, but while the Motherland party (Anap) was in government Mr Ozal accrued considerable powers, particularly in foreign policy.

The first parliamentary ballot to choose a new president is due on April 27.

Mr Husamettin Cindoruk, parliamentary speaker, has made little secret of his presidential ambitions.

A lawyer who acted for Mr Adnan Menderes, the former prime minister executed by the military in 1961, Mr Cindoruk has increasingly alienated government support with his maverick performance, particularly his public opposition to the recent government ban on private TV and radio, and his defence of the legal immunity of Kurdish deputies.

A more popular choice would be the deputy prime minister, Mr Erdal Inonu, the physicist son of Turkey's second president. Apart from the family name, he is widely respected and as a reluctant politician would have no difficulty in remaining non-partisan. Much will depend on his party, the Social Democratic Populists. They may argue that his departure might damage their standing when they face defections to the newly revived People's Republican party (CHP).

Some deputies suggest Mr Demirel himself might also proffer his candidacy.

Italy's voters signal support for electoral reforms

Continued from Page 1

In his address to the industrialists, Mr Amato emphasised that the mandate of the next government, irrespective of prime minister, would be to push through electoral reform.

Political observers are divided as to whether President Scalfaro will ask Mr Amato to stay on, leading a government that might be bolstered by the small Radical party and a few independents, or will seek a wider coalition under an "institutional" figure such as the leader of the chamber of deputies or the senate.

The president and Mr Amato have emphasised the need to avoid a political vacuum, which would create uncertainty and possibly lead to further volatility in the financial markets.

On Friday, the lira strengthened to below L960 against the D-Mark as dealers looked to a period of more stable government.

Among other factors likely to influence President Scalfaro are the forthcoming parliamentary decisions on lifting the immunity of Mr Bettino Craxi, the former Socialist leader, and Mr Giulio Andreotti, the former Christian Democrat prime minister.

Bosnian Serbs

Continued from Page 1

that the deal was tantamount to a Moslem surrender and Bosnian Serb leaders continued to protest that they did not aim to take the town, it seems clear that Srebrenica's survival as a Moslem community is unlikely. With the Moslem defenders disarmed and the heavily armed Serb troops within half a mile of the town, observers doubt whether any of the inhabitants will want to stay.

The decision by the UN Security Council to strengthen existing sanctions against Serbia and Montenegro was taken late on Saturday, with 13 members voting in favour and two – Russia and China – abstaining.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	17	63	Boulogne	C	10	50	Frankfurt	R	14	57	Majorca	S	18	64	Oporto	S	18	64	Tenerife	S	21	70
Algiers	S	19	66	Brussels	C	13	55	Geneva	S	16	61	Malaga	S	18	64	Oslo	F	11	52	Tokyo	F	25	77
Amsterdam	R	10	50	Budapest	F	16	61	Gibraltar	F	18	64	Malta	F	18	64	Paris	C	15	59	Toronto †	S	0	32
Athens	F	18	64	Buenos Aires	R	25	77	Glasgow	R	8	46	Manila	C	34	93	Prague	F	15	59	Tunis	F	19	66
Bahrain	F	29	84	Cairo	S	38	100	Helsinki	F	7	45	Melbourne	S	26	79	Reykjavik	C	4	39	Valencia	S	20	68
Bangkok	F	35	95	Cape Town	S	18	64	Hong Kong	F	21	70	Mexico City	F	29	84	Rhodes	S	19	66	Venice	S	15	59
Barcelona	S	16	61	Caracas	F	30	86	Innsbruck	S	12	54	Miami †	S	17	63	Rio d'Janeiro	F	33	92	Vienna	F	12	54
Beijing	S	31	88	Casablanca †	S	21	70	Inverness	F	9	48	Milan	S	19	66	Rome	S	16	61	Warsaw	C	11	52
Beirut	S	29	84	Chicago †	F	8	46	Islamabad	F	32	90	Montreal †	F	2	36	Salzburg	C	9	48	Washington †	S	7	45
Belfast	R	13	55	Cologne	C	15	59	Istanbul	F	11	52	Moscow	S	9	48	S'Francisco †	C	12	54	Zurich	F	12	54
Belgrade	S	14	57	Copenhagen	C	8	46	Jakarta	R	32	90	Munich	C	11	52	Seoul	S	21	70				
Berlin	C	13	55	Corfu	F	17	63	Johannesburg	F	21	70	Nairobi	R	23	73	Singapore	F	31	88				
Bermuda	F	21	70	Dallas †	S	12	54	Lisbon	S	20	68	Naples	F	18	64	Stockholm	C	9	48				
Bombay	S	32	90	Dublin	Dr	13	55	London	F	15	59	Nassau	C	28	82	Strasbourg	C	15	59				
Bordeaux	C	15	59	Dubrovnik	S	18	64	Los Angeles †	C	14	57	New Delhi	S	33	91	Sydney	F	22	72				
				Edinburgh	R	7	45	Luxembourg	C	11	52	New York †	C	6	43	Taipei	C	22	72				
				Faro	S	19	66	Madeira	S	19	66	Nice	F	16	61	Tangier	S	20	68				
				Florence	S	16	61	Madrid	S	18	64	Nicosia	F	25	77	Tel Aviv	S	37	99				

Temperatures at midday yesterday
† Noon GMT temperatures
C-Cloudy Dr-Drizzle
F-Fair Fg-Fog H-Hail
R-Rain S-Sunny
Sl-Sleet Sn-Snow
T-Thunder

THE LEX COLUMN

On the inside track

The market was well-prepared for Forte's dividend cut last week, thanks partly to a string of items in the weekend press and a shift in sentiment among analysts in the previous week. There is no evidence at all that Forte deliberately set out to leak the news, but this is a pattern which recurs in the UK equity market. The British Aerospace rights issue of 1991 is another celebrated case in point. Perhaps the frequency with which such corporate events are foreshadowed simply reflects the hard work of British broking analysts. To the trained eye, Forte's cut looked obvious after the debacle at Queens Moat.

But that does not alter the fact that brokers' ability to predict depends on close and regular contacts with companies over a long period of time. To some in the City these cosy relationships appear at risk in the proposed new insider legislation. That would be damaging, the argument runs. There is nothing investors like less than a surprise. When news is filtered out slowly there is time to adjust and understand. Share prices are less volatile as a result. Even small investors benefit from the absence of shocks.

Or do they? To those with the long horizons of many small investors it makes no difference how a decision on a dividend or a rights issue reaches the public domain. Over time the effect on the share price will be the same. The people who have more interest in speedy information are active institutional investors to whom broker research is directed. That is fine when the research contains original conclusions based on publicly available information. In the context of the new legislation it is more awkward to defend research that is simply a collection of semi-private hints, nods and winks relayed to an exclusive clientele.

BT

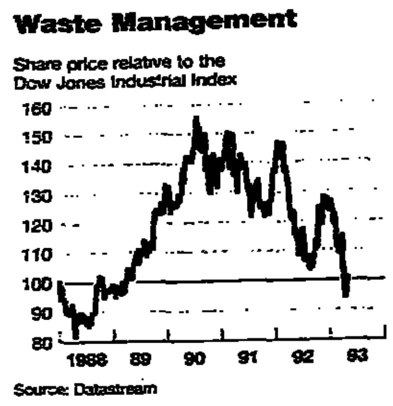
AT&T's application for a telephone licence in the UK is pretty clearly a response to BT's similar application in the US a few weeks ago. It seems likely that the next move on this crowded chess board will be an attempt to get government approval for AT&T and BT to lease lines in each other's markets. International calls could then be handled by one company along the entire route, bypassing the current cartel system.

In the first instance both AT&T and BT will be interested in operating this for the largest corporate customers, and call rates will fall sharply. But there are wider implications. The UK-US link is already the busiest intercontinental route and it may suck more business out of continental Europe as companies re-route calls to the US via cheaper UK lines. Continental telecoms companies may thus be forced to open up to similar leasing deals to avoid losing call traffic. Such pressure is likely to spread, and the cartel system will slowly crumble.

That is a mixed blessing. International calls are highly profitable, so while AT&T will not have to give up profits to other national telecom companies, overall revenues will be under pressure. Large companies will need growing call volumes or increasing market share to benefit. AT&T and BT clearly think they have the muscle to win. Presumably BT's enthusiasm can only be increased by the thought that in the early stages AT&T will go after the same corporate customers which Mercury has tried to make its own.

Waste Management

Share price relative to the Dow Jones Industrial Index



Source: Datastream

Petroleum Revenue Tax

BP's annual report, published three days before the Budget, highlights the words Profitability, Reputation and Teamwork on the cover. Conspiracy theorists will doubtless observe BP is the most spectacular beneficiary of the Budget reform of Petroleum Revenue Tax, and draw their own conclusions. The company vigorously denies it put the Treasury up to the changes – or even that it had any idea such windfall gains were on the way.

Still, the improved cash flow comes in handy at a difficult time. The dividend cut, asset sales and reduced capital expenditure are needed to stem the cash outflow and cut gearing. Even so progress will be slow. The company has set its face against a rights issue, partly it seems to keep the focus on increasing efficiency. With borrowings of $15bn every little helps.

That benefit to BP may be enough to sink opposition to the reforms. Given that the proposals have survived intact in the published finance bill, lobbying seems to have had little impact. BP argues that the changes are good for development in the North Sea. Wasteful drilling will be eliminated and big new finds may be brought on stream quickly because companies will only have to pay corporation tax on the revenue. However, some smaller prospects seem destined not be investigated. It would also be naive to assume the government will be content to tax new finds at 30 per cent if discoveries like those west of Shetland prove to be large and very profitable.

Waste Management

Solid first quarter figures today from Waste Management may stop the rot in its share price this year, but the shares peaked against the US market in 1990. That suggests a creeping disillusionment. Recession is partly to blame by reducing the volume of waste – especially high-margin industrial waste – churned out by the US economy. But more efficient companies will produce less rubbish and effluent even when the economy turns. Over-capacity in areas such as incineration may thus persist beyond recession. Tougher environmental standards are also steering waste management companies towards unknown areas such as recycling.

Recession aside, the outlook in Europe should be brighter. Legislation in most European countries is some way behind the US. Profitable landfill should have years of good growth before regulations become too onerous. Quality landfill sites and incinerators are also in short supply, so prices might hold up better through the downturn. Yet shares in Waste Management International, which operates in Europe and Asia, are well below the price at which 20 per cent of the equity was offered last year.

The US flavour of the share register may be to blame. A stronger dollar cuts the value of European earnings to US investors. The shares of UK companies which paid full prices for a position in waste – notably Severn Trent and Wessex Water – may escape unscathed. But weak prices and the proposed UK government levy on landfill dumping are uncomfortable echoes of the US.

FINANCIAL TIMES
COMPANIES & MARKETS
Monday April 19 1993

INSIDE

IBM prepares to launch $4.6bn loan

IBM, the world's largest computer maker, and IBM Credit Corp, its leasing subsidiary, are preparing to launch a $4.6bn syndicated loan, according to banking sources. The company is approaching its main banks in the hope of obtaining commitments of around $500m from each. Page 18

Three-tier market proposed

The City Group for Smaller Companies (Cisco) has suggested a shake-up in the structure of the Stock Exchange as part of its proposals for alternatives to the Unlisted Securities Market which faces closure in 1996. The proposals are for a three-tier market: an international equity market made up of the top 350 securities; a national market for most remaining companies listed on the Official List and the USM; and an enterprise market for companies not on the Official List. Page 16

Italy and Russia alike

The eight referendums under way in Italy, and the four scheduled for next Sunday in Russia have one thing in common: they are both taking place because the national system of government is in crisis. Needless to say, these referendums cannot repair the old system nor provide a new one, but perhaps the voters may give some sense of their preferences for the way ahead. Back Page

Valued Decor

Fine Decor, a wallpaper maker, is set to come to the market in June through a placing that will value it at £25m. The Cheshire-based company demerged from Boots, the chemist, in 1991 via a management buy-out. Page 17

BICC strife in Germany

Demonstrators outside the factory gates of KWO Kabel, which BICC, the UK-based cable and construction group, acquired last month, are demanding that their employers honour a contract aimed at bringing eastern German wages up to western German levels by April 1994. Page 17

Prospective p/e ratio

The latest prospective p/e ratio for the "500" index for calendar 1993 is 14.3, according to IBES, the consensus estimates service (Last week: 14.3). This compares with an IBES estimated p/e for the "500" of 18.9 (18.0) for calendar 1992. The official FT calculation of the historic p/e, based on the latest reported earnings, is 17.78 (17.8).

Market Statistics

Companies in this issue

Seat freezes investment after fall into loss

By Tom Burns in Madrid

SEAT, the Spanish carmaker owned by Germany's Volkswagen group, suffered losses last year for the first time since 1988 after being hit by high debt servicing charges, a weakened peseta and a shrinking market.

Mr Juan Antonio Diaz-Alvarez, chief executive, said the company would freeze a third of the Pta120bn ($1.06bn) investments planned for this year and for 1994 and would shed 4,000 jobs from its 24,000 labour force.

The Barcelona-based company reported after-tax losses of Pta12.7bn last year, against 1991 net profits of Pta2.4m.

Mr Diaz-Alvarez said the shortfall, which had been anticipated, had been caused by financial charges totalling Pta16bn, accumulated from Pta400bn worth of investments over the past five years. Nearly half of Seat's investment to date has been financed by D-Mark loans and the German currency appreciated sharply against the peseta in the second half of 1992.

Seat, which exports 80 per cent of the nearly 600,000 units it produces annually, did not benefit from the weakened peseta.

Its exports grew 23 per cent in the first half of last year when the currency was strong. But they fell 15 per cent, because of the depressed market, in the last quarter of 1992 after the peseta had devalued by 11 per cent against most European currencies. Mr Diaz-Alvarez said he expected car sales to drop during 1993 and Seat could at best hope to be breaking even at the end of the year.

Car sales were up by a modest 4.7 per cent last year but the company's cashflow fell 59 per cent to Pta7.9bn following an investment outlay of Pta191bn in 1992, 56 per cent up on that of 1991.

Under the reduced investment programme, Seat will be concentrating on a new version of the Volkswagen Polo model, built at the Spanish company's plant in Pamplona; on a bigger version of the Ibiza model, to be unveiled at next month's Barcelona motor show; and on a new small car being developed jointly with Japan's Suzuki group.

Mr Diaz-Alvarez said part of Seat's industrial costs could in the future be passed on to suppliers under the strategy developed by fellow Spaniard Mr J Ignacio Lopez de Arriortua who recently joined Volkswagen from General Motors.

New trial in AMD and Intel copyright dispute

By Louise Kehoe in San Francisco

A US COURT ruling has opened the the way for Advanced Micro Devices to compete with Intel in the lucrative market for microprocessor chips used in the latest generation of personal computers. This follows a US judge's decision to set aside the verdict reached last year in a copyright dispute between the two companies and order a new trial.

The ruling means AMD could immediately begin production of a clone of Intel's top-selling 486 microprocessor chip, rather than having to develop its own version of the "microcode" software instructions that control the chip. The company is expected to announce its plans today.

Competition between Intel and AMD in the 486 market could lead to lower prices for the devices and personal computers in which they are used, analysts predicted.

AMD already sells its own version of Intel's earlier 386 microprocessor and has claimed more than half of the world market for that device.

However, the 386 is rapidly being displaced by the more powerful 486 as the standard microprocessor for desk-top computers. The 486 accounted for a substantial portion of Intel's $2bn in first quarter revenues.

AMD has developed its own version of the 486, but has been prevented from introducing the product by the outcome of last year's trial, in which the court rejected its claims that it had the right to use Intel's microcode under the terms of a 1976 agreement between the two companies.

This forced AMD to begin work on its own version of the microcode.

On Friday, however, federal judge William Ingram, granted AMD's motion for a new trial in the copyright dispute on the grounds that Intel had improperly withheld documents that could have influenced the jury.

Intel was confident it would once more prevail in a new trial, but acknowledged the long-running dispute was now "back to square one". Mr W J Sanders III, AMD chairman and chief executive, vowed to break Intel's "monopoly" and to "compete vigorously in the microprocessor industry, to the benefit of all participants in the computer industry, save one".

Norma Cohen and Maggie Urry report on how UK companies are saving on ACT

Fashion for the thinly veiled rights offering

For the institutional investor, the thought of earning higher dividends subsidised by tax receipts is tantalising. This pleasant situation has become a reality, thanks to a structure pioneered by Barclays de Zoete Wedd which allows UK companies with unrelieved Advance Corporation Tax to offer enhanced scrip dividends instead of cash, offering enormous tax savings to the issuer.

"We don't object to these at all," said the manager of one large industrial pension fund. "It seems to us to be a transfer from the taxman to the shareholder."

However, the new twist on dividends has ominous implications for many other shareholders. The Association of British Insurers, one of the UK's most influential shareholder groups, is seeking a meeting with the Confederation of British Industry to underline its view that it does not wish to see companies habitually issuing their dividends in shares instead of cash.

The ABI fears that, while corporate earnings initially get a big boost from the scrip dividends, issuers may find a few years later that they do not have enough money to pay cash dividends on the increased share capital and will have to cut payouts.

"These are like ice cream," said one member of the ABI's investment committee. "They glisten at first but after they've sat in the sun for a while they don't look so good."

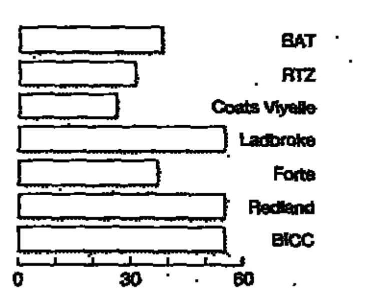
So far, seven companies have proposed enhanced scrip dividend schemes, and most have seen their share prices rise on the announcement. The schemes are conditional on shareholders approving special resolutions, requiring a 75 per cent majority of votes cast, a permission which will have to be renewed if the companies wish to offer the schemes again next year.

The scheme is only of interest to companies with unrelieved advance corporation tax. Companies pay ACT to the Revenue when they pay a dividend to shareholders; they can reclaim it against the corporation tax they pay on their UK profits. But companies which earn much of their profits overseas end up paying ACT they are unable to reclaim.

The effects of scrip dividends

Assuming 100% take up

	Dividend (£million)	ACT (£million)
BAT	334.7	97
RTZ	195	39
Coats Viyella	24	7
Ladbroke	69	20
Forte	39	11
Redland	80	23
BICC	44	13



Source: BZW

Scrip dividends avoid this problem. As ACT is not payable on such dividends, companies can save tax, as well as retaining cash, if their shareholders can be persuaded to take paper.

On Friday, BICC, the cables and construction group, became the latest company to offer an enhanced scrip dividend. BICC said that if half its shareholders take up the scrip offer, it will increase earnings per share for the year by 1.5p and save £12m to £13m ($19.6m) in unrelievable ACT.

Under the scheme, companies offer shareholders the choice of a cash dividend or a 50 per cent higher scrip dividend. Shareholders who take the scrip dividend can use a facility provided by the brokers to sell the new shares at a 5 per cent discount to the scrip value, free of dealing costs, enabling them to take nearly the full scrip value in cash.

However, those shareholders taking the cash options will find their stake in each company has been diluted. The new stock could dilute issuers' share capital by as much as 5.5 per cent, according to Barclays de Zoete Wedd.

Shareholders say they view scrip issues as a thinly veiled rights offering; effectively they are surrendering cash to take up new shares in proportion to their existing holdings. Thus, those companies with coherent strategies for investing the cash they raise have received the warmest reception from shareholders. However, if issuers were to offer the option at every dividend, it would become little more than a rolling rights issue and shareholders say they would object to constant calls for capital.

Investors also say the securities can be used as a kind of fudge which allows a company short of cash to pretend it is raising its dividend when it is not. Criticism in particular has been levelled at Forte, the hotels group, which cut its cash dividend and then announced an enhanced scrip offering. "Companies which can't afford to pay a dividend shouldn't pay a dividend and that's that," said one shareholder. "Otherwise the scrip dividend is nothing more than a fiddle to disguise the fact that the company has run out of cash."

"If I want a company's shares I'll go out into the market and buy them, thank you very much," said Ms Caroline Burton, investment director at Guardian Royal Exchange. "In the meantime, I'd like my cash."

Historically, UK institutions have steered shy of scrip dividends The average take-up of optional offers has been no more than 5 per cent. For one thing, tax-exempt investors, such as pension funds, have been able to reclaim an additional 25 per cent (20 per cent after the Budget) from the Inland Revenue representing the ACT due on cash dividends – something they cannot do with scrip dividends.

But the new structure offers the opportunity for an enhanced dividend and allows the company effectively to raise cash by cutting its tax bill, and that has put scrip dividends in quite a different light.

BAT, for instance, a company with large overseas earnings, will save £97m in ACT alone. Mr Michael Perry, assistant director at BZW, said the cash savings can be reinvested to provide sufficient returns to cover the cost of future dividends on the new shares.

The extra 50 per cent on the dividend more than compensates tax-exempt funds for the loss of the tax credit, while taxpayers can gain even more, depending on individual tax positions.

Some shareholders, while enthusiastic about the opportunity to cut their tax charges, view the securities with mixed feelings. Among other things, some have complained that because the enhanced dividend was in some cases announced after the ex-dividend date, there was effectively a false market in the shares.

Share prices have tended to rise after companies have announced an enhanced scrip dividend scheme; so those who sold after the ex-dividend date but before the announcement could have missed out on a profit. Several institutions said they plan to take the matter up with the Stock Exchange.

The Stock Exchange said that in some cases, the scrip offer had not been decided until after the dividend dates had been set. "We didn't wish to tell the companies they couldn't issue the scrip offer," it explained. However, it said that if shareholders expressed concern about the announcement, it would consider whether companies should be required to announce scrip dividends at the time of the ordinary dividend announcement.

While enhanced scrips are enjoying a burst of popularity now, that may be shortlived because the tax structure which gave rise to their creation is about to be scrapped. The March budget proposed a new "foreign income dividend" scheme which might get around the ACT problem faced by companies with a high proportion of overseas profits, the very companies for which the scheme is interesting.

For investors, the question is whether the short-term gains offered by enhanced scrip dividends are overshadowed by their detractions in years to come.

West can help make Russia's reforms stick

Economics Notebook

By Leyla Boulton in Moscow

Mr Boris Fyodorov, Russia's finance minister and deputy prime minister, complained recently that ever since the old state-planning system had started to collapse, no single government had been given the freedom to conduct any consistent policy for any period of time.

"Give six months to somebody, give it to the Bolsheviks for all I care," he said.

A big frustration about Russia, the heart of the former Soviet Union, is that it has indeed become ungovernable, not least because it has been so badly governed of late. As a result, the country runs on a mixture of inertia and anarchy, while the parliament and government squabble about who understands the Russian people better.

Now, even as he returns from Tokyo with a new package of support for Russian reforms, Mr Fyodorov admits the economy is unlikely to "stabilise" any time soon because Sunday's referendum will probably be followed by early elections in the autumn.

But still he soldiers on, saying that for the time being there is no alternative to President Yeltsin if reforms are to be carried forward.

As an illustration of the sort of political manoeuvring which is likely to continue for the foreseeable future, President Yeltsin appointed a conservative as first deputy prime minister, directly above Mr Fyodorov, just as he was negotiating with the G7 in Tokyo.

But by placing their bets on President Yeltsin and the programme drawn up by Mr Fyodorov, western leaders hope that the referendum will at least clear up some of the cobwebs and give Mr Yeltsin a mandate to move ahead with stalled reforms.

If this indeed happens, two fundamental problems will still need tackling.

One is the need to develop efficient mechanisms for unfolding western assistance, which would be tied to reforms continuing. The other is to boost the Russian state's ability to implement reforms.

Given western traditions of efficiency, rapid progress can be made on the first front now that the west has been frightened into action by fears of President Yeltsin being removed by an inchoate parliament.

The Russians are also beginning to understand that they are in a position where they have the leverage better to formulate and make demands of the west.

At a recent Moscow dinner party, a group of young Russian politicians asked angrily why "the west" had not told the government this time last year what it was doing wrong.

They cited as an example the fact that Russia tried to start financial stabilisation on its own when 15 central banks of the former Soviet Union could still issue roubles.

For its naive faith in western omniscience, the question was more interesting than any embarrassed answer to the effect that there had been no united view in the west about how Russia should best go about launching reforms, although Mr Yegor Gaidar at least had the merit of starting the process.

Now the west too is learning from the past and is less afraid to interfere.

But the Russian people remain plagued with inefficient government in the broadest sense – from the top of the pyramid in Mr Yeltsin's Kremlin offices to the grass-roots, whether in tax collection or law enforcement.

Mr Fyodorov estimated recently that only 60 per cent of tax revenues are collected. Mr Andrei Nechayev, the economics minister sacked as part of the business of trying to improve the government's efficiency, recently shared an insider's view of the problems. He singled out for instance the fact that the cabinet's work was duplicated and sometimes superseded by parallel presidential policy-making structures such as the Security Council.

But perhaps the biggest threat to both coherent policy-making and the very unity of the country are the numerous exemptions to federal taxes and other political and economic concessions granted to various regions and enterprises to buy political support.

Both the president and government have recently vowed to do away with this practice even though their whole power base has so far relied on it in the absence of institutions capable of making reforms binding for all.

The system whereby benefits are granted not on the basis of a selective policy but, as Mr Yeltsin himself put it, to "whoever pays a bribe, has the sharpest elbows or the loudest voice", is mirrored at local level.

In spite of justified accusations of inefficiency at his own institution, Mr Jacques Attali, the visionary chairman of the European Bank for Reconstruction and Development, is right to stress the need to help Russia build an efficient administration.

"We advised them to dismantle the old system but they have nothing to put in its place," he said during his last visit to Russia.

But there is going to be no quick fix in attempts to push forward Russian reforms with western help.

Robert Conquest, the historian, provides an ironic picture of what happened to western aid when the Bolsheviks starved peasants in 1921, and the US responded generously to Soviet appeals for help.

Whereas a 1926 Soviet encyclopaedia acknowledged that US relief workers fed 10m people at the height of their activity, subsequent editions reported that they had been a front to support western counter-revolution and sabotage.

Even though some Russian politicians, in the time-honoured practice of looking for the external enemy, are even today trying to blame the west for Russia's problems, closing off the country again is no longer a real option.

But an erosion of the west's ability to influence events remains a distinct possibility unless it can provide the glue to make reforms stick.

The west is rightly nervous about being drawn into the Russian mire. But

However, the advantage of it doing so is that it makes it increasingly difficult for Russia to wriggle out of an embrace it cannot do without.

Berisford bid for C&J Clark detailed

By Peggy Hollinger in London

C&J Clark, the UK shoe manufacturer riven by board dissent, is poised to inform shareholders of the details of a bid from Berisford International, the property and agribusiness company.

The bid is believed to include a clause whereby Berisford would have the right to purchase the assets and brands of Clark if it wins more than 50 per cent of the company.

Berisford is reported to have made an offer of about 205p per share, which values Clark at £158m, ($239m) against the latest trading price of 90p.

The board met on Friday to approve the final details of a circular which will recommend the bid price as fair and reasonable to Clark's 4,000 shareholders early this week. However, three of the 11-strong board are not recommending the offer, with one further abstention.

The sale is being opposed by a group of shareholders and board members who claim to represent at least 30 per cent of the company.

At an extraordinary general meeting on May 7, shareholders will be asked to vote on a sale of Clark's assets and brands to Berisford. If that is approved, Berisford would then make a full offer for the company comprised of cash, shares, or loan notes.

If the offer does not win 90 per cent approval, Berisford is expected to revert to the option to purchase the assets and brands of the business at a price similar to the full offer.

Fyffes silent on its rejection of I£420m Dole bid

By Tim Coone in Dublin

FYFFES, the UK and Irish fruit and vegetable distributor, remained tight-lipped at the weekend over the reasons for its rejection of the I£420m take over bid by Dole, the California-based fresh fruit distributor, after a week of talks between the two managements.

Mr Carl McCann, finance director at Fyffe's, was emphatic that discussions with Dole have been terminated, but was not prepared to go into any further details. He did point out, though, that it was the first time Fyffes had been the subject of a bid. Significantly, he did not describe it as "hostile".

Reports at the weekend suggested that Dole's senior executives believed that the bid was going to be accepted, but then it fell at the last hurdle when rejected by Fyffes on Friday afternoon.

The most likely reason is the surge in the price of Fyffes shares for two days prior to its announcement that it had received an approach "which may or may not" lead to an offer to buy the company at 115p per share.

Its shares closed at 122p on Friday. It is thought the board considered the bid undervalued the company, although according to weekend reports Dole is not prepared to go any higher.

Main shareholders in Fyffes are the McCann family, which holds 9.3 per cent of the 280m ordinary shares in issue, and DCC, an Irish holding company led by Dublin entrepreneur Mr Jim Flavin, which owns 11 per cent. About 70 per cent is held by institutional holders according to brokers.

DCC has been a strong supporter of the McCanns, helping them bring their original company, FII, to the stock market in 1981, and in their purchase of Fyffes in 1986. It has a seat on the board and is a financial adviser.

Fyffes has been keen to expand into the market on the European mainland, and since its I£60m rights issue in June 1991, has kept the market guessing over likely acquisitions. It suffered two setbacks last year when Del Monte was sold to a Mexican concern and when the ERM crisis forced it to abandon a I£52m deal with Saba Trading.

The company has some I£90m in cash, and negligible debt. Last December two of the McCann directors sold off a quarter of their holding to repay borrowings, at a market low of 64p per share. DCC bought 7.7m of the 11m shares sold by the McCanns.

Dole has been building up its banana interests in France, and clearly views Fyffes as a company which would mesh well into its European strategy.

Enlarged Swallowfield declines to £1.27m

A REDUCTION in pre-tax profits, from £2.1m to £1.27m, was announced by Swallowfield, the Somerset-based personal care products manufacturer, for the year to end-December.

Turnover edged ahead to £23.2m (£22.9m).

Mr Terry Organ, the chairman, said that £1.8m of turnover had come from Parbel Belgium, acquired in July, which had provided an opening to continental Europe.

He said the group was still working to turn Parbel round. Its losses were shown as £37,000.

Interest charges rose following the acquisition and gearing was back up to 84 per cent, he said. However, he expected that figure to fall this year.

Earnings per share slipped to 7.3p (13p) and the proposed final dividend is cut to 2.2p (3.9p) for a reduced total of 4.4p (6.1p).

A leading light under its new ownership

Alan Cane reports on how Technology has survived and prospered after last July's traumatic events

THE letter from International Business Machines arrived, hand delivered, in the reception area of Technology on July 10 last year.

It gave notice that the world's largest computer manufacturer had decided, unilaterally, to terminate its contract with Technology, one of the UK's largest and most successful personal computer distributors.

It was a sharp rebuff for Technology's audacity in allowing itself to be acquired the week before by ICL, the UK computer maker in which Fujitsu of Japan has a majority stake.

The same day, Digital Equipment, the US minicomputer manufacturer, said it would not renew its distribution contract.

A year on, Mr Derek Lewis, chairman and chief executive of Technology, still resents the cavalier way in which Big Blue ended the relationship: "We had been working with them for nine years and sold half a billion pounds worth of IBM equipment".

Mr John Gardner, chairman of ICL (UK), recalls the shock of Black Friday: "It was traumatic; it stopped Derek's business dead in its tracks, but in hindsight it was the best thing that could have happened".

It was hardly unexpected, though. ICL bought Technology for £30m with the aim of becoming the largest supplier of personal computers in the UK, ahead of IBM, Compaq and Dell.

It was a controversial move which always courted the risk that major personal computer makers would not want to deal with a distributor owned by a rival and selling ICL products in direct competition.

"The chances were we would lose one personal computer manufacturer," Mr Lewis says. "But IBM was not the most likely."

Today, Technology has not only survived but prospered, and its lean and hungry business methods are the model for the rest of ICL. Operating margins, for example, are typically less than 10 per cent. Mr Lewis pays by results; low salaries and high commissions mean that overheads are always in line with sales.

By comparison, ICL as a whole is working hard to drive operating expenses below 23 per cent of sales.

In the year to June 1992, before the ICL takeover, Technology made sales of £147m, of which some £70m was IBM and Digital Equipment business. Despite the pull out, in the six months from July to December last year revenues totalled £110m with pre-tax profits of £5.5m. For the full year the target is revenues of £250m.

Of the £110m, £40m was ICL equipment; the rest came from sales of systems from other suppliers: Compaq, Sun, Hewlett Packard, Toshiba, and Groupe Bull.

Digital Equipment never, in fact, cut off supplies of its systems. Now Technology is able to sell IBM mid range machines through an agreement with Bull of France, which sells the US manufacturer's machines under its own name. If a customer insists on IBM personal computers, Technology buys them from brokers: "It only amounts to sales of £200,000 or so a month," Mr Lewis says.

ICL bought Technology because, in common with other large computer manufacturers, it had to find a cost effective channel to market low cost systems which could not command the profit margins necessary to support a direct sales force.

The problem is complicated because many large customers like dealing directly with the manufacturer. By buying Technology, ICL brought together in one step the dealer-only channel and the manufacturer's direct channel.

For significant sales accounts, ICL takes the lead but passes the implementation over to staff at Technology once the contract is signed.

Paving the way for success: John Gardner (left) and Derek Lewis

The company recently concluded a deal worth £6m for the supply of 2,000 Toshiba notebook computers to NatWest Life Insurance. The ICL account team handled the sale; Technology staff are to implement it.

The intention had been to run the company as a separate division, but the fracas with IBM and Digital forced a rethink and Technology was integrated into the overall company structure: "It was more a merger than an acquisition," Mr Gardner says. ICL is now the sixth largest personal computer supplier in Europe.

ICL, with turnover of £2.48bn and pre-tax profits of £38.6m last year, is now developing its business in three directions: computing services, business solutions (including the mainframe business) and volume products; the latter are the responsibility of Technology.

Personal computer manufacturers these days are segmenting their product lines into systems which command premium prices – IBM's PS/2 line for example, and commodity systems which sell at the lowest possible prices.

Last week ICL took a further step in acknowledging the increasing tendency for computer hardware to become a commodity product by introducing a low cost version of its high powered mid range machines which run the Unix operating system.

A typical Unix system sells for £250,000. ICL's value for money machines – the Technicl range – sell for between £10,000 and £50,000, making Unix computing accessible to a broad range of small business customers.

All ICL's personal computer and Unix systems are handled by Technology. The difference between a premium Unix computer and a Technicl product is simply packaging. The Technicl system comes in fixed configurations; it can be ordered, sold and delivered in 48 hours.

The logical conclusion is that most of ICL's hardware will eventually be sold by Technology: "The sooner the better," Mr Lewis says.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Hanson (UK/US)	Watt Housing (US)	Building	£75.5m	Bolt-on buy
Royal Bank of Scotland (UK)	Boston Five Bancorp (US)	Banking	£63m	RBS continues US growth
Parafax (Hong Kong)	Digsa (Spain)	Retailing	£53m	Ashley Group disposal
Terra Industries (US)	Unit of ICI (UK)	Chemicals	£36m	Another ICI disposal
Siebe (UK)	Eberle (Germany)/ Schmidt Amaturen (Austria)	Engineering Controls	£25m	Total cash consideration
Pacific Cup (Hong Kong)	Unit of Smith & Nephew (UK)	Plastics	£17.4m	Australian non-core disposal
Snyder Oil (US)	Command Petroleum (Australia)	Oil	£12m	Normandy Poseidon selling stake
First National Bank (South Africa)	Midlantic (HK)	Banking	£10m	FNB continues internationalisation
Kingstream Resources (Australia)	Plateau Mining (UK)	Mining	£1.2m	"Unbelievable" offer for shell
AT&T (US)	Shaye Communications (UK)	Telecoms	n/a	Plugging portfolio gap

The expansion and contraction of UK and US companies generated a number of last week's cross-border mergers and acquisitions, writes Brian Bollen.

Royal Bank of Scotland took another step forward in its long-term strategic US expansion programme by agreeing to buy Boston Five Bancorp. Hanson described its purchase of Watt Housing Corporation in the US as a bolt-on acquisition as part of its continuing programme of expanding its core businesses. The latest deal in the telecommunications sector saw AT&T of the US buy Shaye Communications, the UK-based wireless telephony specialist.

Siebe, the UK's largest engineering business, strengthened its position in the temperature, appliance and industrial process control markets with the acquisition of two European controls companies. It is paying a total of about £25m for Eberle of Germany and Schmidt Amaturen of Austria. The week's non-core and debt reduction disposals included the sale by Ashley Group of the UK of Distribuciones Gimenez y Compania, a Spanish food retailing operation, to Parafax. The buyer is a Hong Kong company formed for the purpose of acquiring retail companies by a consortium of investors including Sir Ralph Halpern. Smith & Nephew completed the sale of its interest in Smith & Nephew Plastics in Australia as part of its strategy of concentrating on its core worldwide health businesses. ICI completed the disposal of its Canadian-based nitrogen products business.

Inchcape, the international services and marketing group, said it was moving into Turkey's expanding market for consumer goods by taking a 55 per cent stake in Inchcape Retrans.

Clyde Blowers acquisition

Clyde Blowers has taken over Sturtevant Engineering in a deal worth £336,000 in cash.

Sturtevant is based in Brighton and owns two trading subsidiaries known as Sturtevant Engineering Systems and Sturtevant Engineering and Manufacturing.

Clyde has bought 98.8 per cent of the ordinary and the whole of the preference capital.

Pendragon

The rights offer at 225p per share by Pendragon has been accepted in respect of 7.23m shares, or 94.2 per cent.

Shares not taken up were placed at a net premium of 27.5p per share. Fully paid allotment letters are renounceable up to May 6.

Fine Decor coming to market with £25m tag

By Richard Gourlay

FINE DECOR, a maker of wallpaper which exports to 30 countries, is set to come to the market in June through a placing that will value it at £25m.

The Cheshire-based company demerged from Boots in 1991 via a management buy-out, six months after the chemist and DIY business acquired it as part of Ward White.

Mr Harry Morgan, chief executive, who spent 16 years with Unilever before joining the group, says Fine Decor has no pretensions to the exclusive market addressed by Colefax & Fowler or Osborne & Little.

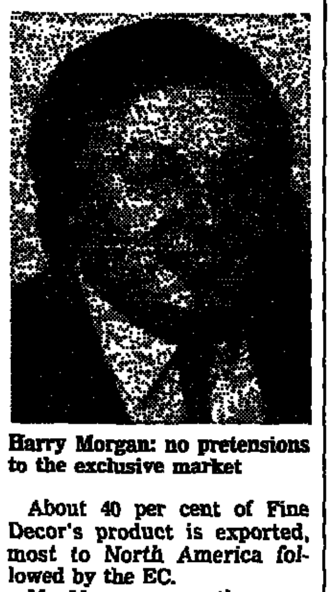
"We are trying to appeal to the international mass domestic market," he says. "The secret of our success is that we have identified areas of common ground (in our export markets) in terms of design and colour."

Given the sorry history of Coloroll – a company that looked very similar to Fine Decor when it set out – Mr Morgan is also keen to scotch ideas that it will try to grow quickly through acquisition, although some of the proceeds will be used to that end. "It is not our intention to change the company other than its balance sheet."

Fine Decor will be coming to the market on the back of a forecast of interim results for the six months to July 1993. In the year to the end of January, sales increased 16 per cent to £33.2m and operating profits rose 83 per cent to £3m. Pre-tax profits were held back by the interest charge to £2.1m.

The company is raising about £10m though the float – half of it for existing investors. The balance will repay the £5m of MBO debt, leaving the group broadly cash neutral. The MBO team paid £9m for the business, what Mr Morgan calls "a 1980's price in 1991".

The MBO team will not be selling any shares and will end up with 20 per cent of the company – down from 30 per cent just before the float.



Harry Morgan: no pretensions to the exclusive market

About 40 per cent of Fine Decor's product is exported, most to North America followed by the EC.

Mr Morgan says the company has grown despite the recession by taking market share, growing sales of co-ordinated textiles – which now appear alongside the wallpapers in the sample books – and by boosting sales of borders.

The group has also sharply reduced its dependence on sales to FADS to only 20 per cent of total sales.

Samuel Montagu is sponsoring the flotation.

Apax says price for Gabicci is too high

By Catherine Milton

APAX Partners, a venture capital company, has withdrawn from talks on making an offer for Gabicci, the casual clothing company which agreed last month to an all-share bid from Helene, the clothing distributor.

The Helene bid is opposed by two dissident directors, Ms Ana Dodosh and Mr Gordon Lawrence, who have criticised the absence of a cash alternative. They deny any association with the Apax initiative.

It is understood that Gabicci's former managing and finance director, Mr Michael Abrahams, was part of the management team leading the mooted management buy-in.

The Helene bid is 2.043 shares for every Gabicci share, and carried a value of about 50p per Gabicci share against a closing price on Friday of 46p.

"Apax withdrew basically because it had a look and it just felt for this kind of price it's not worth it," said the company, which had discussed a price of about 45p.

Mr Norman Fetterman, managing director of Helene, said his company held about 31 per cent of Gabicci as of last Friday. He added: "A number of institutional shareholders had been waiting to see what happened to Apax."

Mr Jack Sofier, chairman of Gabicci, said he believed shareholders would now accept the Helene bid by the closing date next Wednesday: "There's nothing else on the table. They should all accept now."

Mr Lawrence, described Apax's departure as "a major disappointment". He believed Helene had not won as many acceptances as it had expected: "We still maintain the offer is not a good one."

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 19.04.93: Pool purchase price £/MWh	Final Prices for Trading on 21.03.93: Pool purchase price £/MWh	Pool selling price £/MWh
0030	18.02	25.05	25.05
0100	18.02	25.05	27.82
0130	35.00	25.00	27.75
0200	35.26	25.00	27.88
0230	35.26	22.19	24.72
0300	35.26	21.82	24.34
0330	27.47	18.58	21.01
0400	27.47	18.58	21.08
0430	18.11	17.53	17.53
0500	18.07	17.51	17.51
0530	18.03	17.53	17.53
0600	18.03	17.50	17.53
0630	18.03	17.53	17.53
0700	18.02	18.51	21.08
0730	18.02	18.51	21.06
0800	20.87	18.51	21.04
0830	21.28	24.13	28.91
0900	26.80	25.09	27.89
0930	26.80	25.09	27.88
1000	26.80	24.13	28.85
1030	26.80	24.13	28.85
1100	27.04	24.13	28.88
1130	29.13	24.13	28.88
1200	29.64	23.68	28.25
1230	37.45	27.84	30.54
1300	37.45	27.84	30.54
1330	37.45	25.00	27.80
1400	29.84	26.00	26.00
1430	26.80	25.00	25.00
1500	18.11	25.00	25.00
1530	18.09	26.00	25.00
1600	18.09	25.00	26.00
1630	18.07	25.00	26.00
1700	18.07	17.52	17.52
1730	18.09	17.52	17.52
1800	21.28	17.53	17.53
1830	18.11	17.62	17.62
1900	18.09	25.00	27.86
1930	18.09	25.09	27.84
2000	21.28	25.09	27.84
2030	26.80	24.20	26.75
2100	29.64	24.30	26.78
2130	31.50	24.20	26.78
2200	31.50	22.39	24.92
2230	29.13	18.51	20.89
2300	28.95	17.55	17.55
2330	21.28	17.52	17.52
2400	18.54	17.52	17.52

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.86/MWh becomes 1.886p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by NGC Settlements Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8.30am and 5.15pm Monday to Friday.

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0030	18.09	25.00	25.00
0100	35.00	25.00	27.75
0130	35.00	22.39	24.98
0200	33.91	22.39	24.62
0230	33.91	21.10	23.55
0300	33.91	21.10	23.55
0330	25.78	21.10	23.58
0400	18.54	17.55	17.55
0430	18.07	17.54	17.54
0500	18.07	17.54	17.64
0530	18.07	34.50	34.50
0600	35.00	34.50	34.90
0630	35.00	34.50	34.50
0700	35.00	42.50	46.11
0730	26.39	21.35	23.88
0800	25.42	22.92	25.49
0830	29.08	22.92	26.44
0900	29.08	23.74	26.29
0930	29.07	23.77	26.30
1000	29.07	24.83	27.41
1030	27.91	24.83	27.39
1100	27.91	24.83	27.37
1130	27.91	24.83	27.87
1200	27.92	24.83	27.37
1230	27.91	24.83	27.38
1300	27.89	24.83	27.38
1330	26.34	24.83	27.87
1400	26.41	23.77	26.27
1430	25.41	23.72	26.24
1500	25.12	19.10	19.10
1530	25.12	19.10	19.10
1600	25.12	23.72	26.22
1630	34.64	28.27	30.93
1700	35.00	28.27	30.91
1730	35.00	28.27	30.91
1800	29.00	28.27	30.92
1830	25.12	19.67	19.67
1900	25.12	30.47	33.09
1930	25.12	30.47	33.09
2000	19.00	30.47	33.08
2030	24.78	27.48	30.00
2100	40.86	22.53	24.94
2130	40.86	22.40	24.81
2200	40.86	21.36	23.75
2230	30.23	18.13	18.13
2300	24.78	18.01	18.01
2330	24.78	17.55	17.55
2400	18.54	17.55	17.55

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An acquisition with eastern promise

Judy Dempsey reports on BICC's purchase of KWO Kabel, Germany's third largest cable maker

MR DAVID Hingston shrugged off the small demonstration outside the factory gates of KWO Kabel, the east German cable maker which BICC, the British-based cable and construction group, acquired in February.

The demonstrators, led by IG Metall, Germany's giant engineering union, were demanding that employers honour a contract aimed at bringing eastern German wages up to western German levels by April 1994.

As chairman of the management board of KWO, a factory located on the banks of the river Spree in Köpenick, east Berlin, Mr Hingston would prefer the timetable towards income parity to be postponed. That would mean that he would not be obliged to pay his employees a 26 per cent pay increase this year as outlined in the contract.

But these, and other problems, are now in the hands of Mr Rainer Hemmann, who BICC poached from Siemens, and who took over KWO's day-to-day operations in March. Mr Hingston, in the meantime, will turn his mind to BICC's other international operations.

Mr Hingston, who knew about KWO's operations before German unification, had no illusions about the effort it would take to turn the company round. Before 1989, the Soviet and eastern European market accounted for the bulk of KWO's turnover. Monetary union in June 1990, and exposure to competition soon put paid to that market. By February 1992, trading losses totalled DM9m.

Despite the collapse of the Soviet market, and trading losses, BICC decided to buy KWO in late-1991 after a western German company lost interest. KWO had been taken over in 1990 by the Treuhand, the agency responsible for the privatisation of the eastern German economy, which reduced its workforce from 9,500 to 3,800.

BICC took the plunge for two reasons: it believes that eastern Europe will eventually develop a vast market for telecommunications and cable power equipment, making KWO's traditional links in the region invaluable. More importantly, BICC wants a much bigger foothold in the German market.

But the negotiations with the Treuhand were long. There were many property claims on the four sites which BICC eventually bought. Even though BICC, as an investor, had priority over claims registered by former owners, the Treuhand, and the city of Berlin, wanted watertight assurances that BICC was not buying for the "quick buck".

"Some people in the Treuhand were obsessed about property speculators. I think they had gotten their fingers burnt before. They needed a lot of convincing that we would not shell the site, and then sell it for a big profit.

"In the end, because we were going to rationalise our operations, which meant we only needed 105,000 square metres of the 230,000 square metres we bought, it was agreed that we would offer any excess land back to the city of Berlin at the price we paid for it, plus inflation," explained Mr Hingston. BICC paid an estimated DM63m for KWO.

Another lesson BICC learnt in the process of trying to complete the KWO deal was the importance of detail. "No foreign company should apply for planning permission with vague outlines. Detail is a premium in this country," said Mr Hingston. Patience with the bureaucracy is another necessary virtue, quipped a BICC senior official.

BICC completed the acquisition of KWO in March, almost a year since it started negotiations, which at that time, gave it the right to manage the company.

Under the terms of the contract, BICC is committed to investing DM80m (excluding grants) until 1994, and it is entitled to obtain grants from the Senate of Berlin of about 23 per cent of the capital costs. In addition, BICC will receive an 8 per cent investment premium from the government for fixed production costs.

BICC is also committed to employing a total of 2,200 people until the end of 1994. Mr Hingston says there is still a small amount of unemployment. "We have nearly reached our target of 2,200." The Treuhand subsidised excess labour until last October. It will meet redundancy costs until the middle of this year.

Rationalisation has been completed. Mr John Woodthorpe, director of strategic planning at Köpenick, says KWO has now been divided into three divisions – energy cables, telecommunications, and material.

"KWO, in principle, is like any other factory. The only thing is that you have to make an allowance for the past 40 years: the staff has to appreciate the value of profit, money, property, and above all, the importance of the consumer," said Mr Hingston.

Needless to say, the marketing department has been overhauled. "Before 1989, there was a sales department of 30 people, who we still employ. They were instructed in one style of marketing: they had to visit the shops, check the stock, and then tell the retailers what they could and could not have. That was what was known as marketing . . ." explained Mr Hingston.

As a result of training, and a smaller workforce, sales per person have doubled over the past year, and productivity has risen from about 35 per cent to 65 per cent.

By the end of 1992, turnover amounted to DM320m, and could reach DM400m this year. Germany, and European Community countries, already account for 80 per cent of turnover.

But there are signs that KWO's market in the former Soviet Union is reviving. And most important of all, there is even talk of a "small profit" for 1993. "Things are improving," said Mr Hingston.

IBM prepares to launch $4.6bn syndicated loan

By Sara Webb

IBM, the world's largest computer manufacturer, and IBM Credit Corp. its leasing subsidiary, are preparing to launch a $4.6bn syndicated loan, according to banking sources.

The financing, in the form of a revolving credit facility, is being arranged by Credit Suisse First Boston.

The company is currently approaching its key relationship banks in the hope of obtaining commitments of around $500m from each of them.

The deal may be launched as early as this week.

Officials at IBM refused to confirm the transaction but, according to bankers involved in the deal, IBM itself is setting up a $3bn line, while IBM Credit Corp, its wholly-owned leasing organisation, has access to a further $1.6bn.

Each portion is understood to consist of 364-day and three-year tranches. A revolving credit is a loan facility which can be repaid and reborrowed throughout its lifetime.

Both IBM and IBM Credit Corp are familiar borrowers in the public markets where they have launched bond issues. However, bankers point out that this loan would be IBM's debut in the syndicated loans market. IBM Credit Corp launched a $500m, five-year revolving credit in 1986 which was arranged by Salomon Brothers.

Last month, Moody's, the international credit rating agency, downgraded IBM's long-term debt as well as that of its financially-supported wholly-owned subsidiaries, IBM Credit, IBM International Finance and IBM Japan, to Single-A1 from Double-A2. The downgrading affected about $18bn of debt, the agency said.

IBM reported a net loss of $4.97bn for 1992, the biggest annual loss in its history, as sales of mainframe computers dropped sharply in the fourth quarter.

Alberta sells stake in Energy unit

By Robert Gibbens
in Montreal

THE ALBERTA government is selling its 36 per cent interest in Alberta Energy, the Canadian resource company, for C$476m (US$378m).

Mr Peter Lougheed, former Alberta premier, set up AEC 20 years ago, when oil and gas prices were booming, as a vehicle for Albertans to share in the prosperity. About 7.5m shares were sold at C$10 each to Alberta residents.

The 36 per cent interest is held by the Alberta Heritage Fund, a C$7bn investment pool set up by Mr Lougheed to invest excess oil and gas tax revenues after the energy crisis in the 1970s.

About 25m shares are to be offered at C$19 each with payment of C$9.50 each on May 11 next and May 11 1994. Albertans are being offered 40 per cent of the block.

AEC stock closed at C$19¼ on Friday, up from a 52-week low of C$9¾ with the turnround in the oil and gas industry and a better outlook for the company's newsprint investment.

The company swung back to strong profitability last year.

Cartel body rejects ZF takeover of GM division

THE German Federal Cartel Office has rejected the planned takeover of General Motors' Allison transmission division by Zahnradfabrik Friedrichshafen, the German automotive supplier, Reuter reports from Berlin.

The takeover would have created a leading business worldwide in terms of its range, technological competence and its service and sales network, the office said.

It added that ZF was a leading international supplier of drive, steering and wheel technology with group turnover of almost DM6bn ($3.7bn), while Allison's domestic sales made up only 1 per cent of its total turnover of more than $800m.

With the strong market position of ZF and the already high degree of concentration, any further amalgamation would have represented a considerable deterioration in competition, the office maintained.

It said ZF had already announced it would appeal. Dr Klaus Bleyer, chief executive, of ZF, said the deal promoted "ZF's long-term strategy of providing world-class powertrain products to a global customer base".

Europa Metalli tumbles into red

By Haig Simonian in Milan

EUROPA Metalli, the industrial arm of Societa Metallurgica Italiana, Europe's biggest maker of semi-finished copper and alloy products, plunged to a L67.4bn ($44m) loss last year owing to the recession and problems at its big French subsidiary.

In 1991, net profits at the company, which controls Kabelmetal in Germany and Tréfimétaux in France, amounted to L10.9bn.

Sales in 1992 rose by about 3 per cent to L3,112bn, based on average exchange rates for the year. However, the decline in demand was reflected in turnover in Ecu terms, which fell by about 0.5 per cent.

Mr Luigi Orlando, chairman and main shareholder, attributed the sharp fall in earnings to financial factors and the recession. Extraordinary items in 1992 resulted in a loss of L3.2bn, compared with earnings of L32bn in 1991.

Operations in France reported a heavy loss, while activities in Germany, which had buoyed other parts of the group, also witnessed a downturn in the second half. Meanwhile, the group's defence business, principally ammunition, remained heavily in the red owing to stagnant demand.

The group forecast an upturn this year thanks to a restructuring plan involving investments of L150bn over the next two years to improve productivity and product quality, and lift sales. It also plans to cut its workforce, now about 11,000, by 14 per cent, with the sharpest reductions in France.

Net group debt rose to L1,043bn from L863bn in 1991, although much of the increase was due to exchange rate factors.

● New Holland, the farm and construction equipment business formed from the acquisition by Fiat of Ford's New Holland subsidiary, is buying 50 per cent of Fabrica de Tractores Agricolas, a leading Mexican farm equipment maker.

No price for the deal has been revealed. FTA, owned by the Mexican Barrera group, had sales of about $100m last year and controls around 40 per cent of the Mexican farm equipment market.

The deal envisages the transfer of Fiat technology to FTA for tractors of between 65-100 horsepower and offers FTA access to the international New Holland sales network for its products.

Oce-van der Grinten falls 50%

By Ronald van de Krol
in Amsterdam

OCE-VAN der Grinten, the Dutch office equipment and photocopier maker, saw net profit tumble by nearly 50 per cent in the 1992-1993 first quarter as the economic slowdown in Europe hit sales.

Net profit was virtually halved to Fl 10.8m ($6.0m) from Fl 21.1m a year earlier.

Sales were down 7 per cent at Fl 609.2m, with European sales in particular under pressure because of generally weak economic conditions.

In the US, sales and profits rose, the company said.

Operating profit plummeted by 56 per cent to Fl 14.6m, though this was partly balanced by a rise of more than one-third in interest income from financial leases to Fl 22m. However, the higher trend in financial leases also caused financing charges to rise by Fl 3m to Fl 23.3m.

In the engineering system market, encompassing both copying and plotting equipment, sales tumbled by more than 10 per cent.

Oce said it expected several new machines launched recently at the Hanover Fair to make a "clear contribution" to sales in the second half.

In office copying and printing equipment, the sales decline was more moderate, at 3 per cent.

The company did not comment on the outlook for profits later this year. In February, Oce had warned it expected to see lower results in the first six months of 1992-1993 and an improvement in the second half.

Sappi beats expectations and pays dividend

By Philip Gawith
in Johannesburg

SAPPI, the forest products group in the Gencor stable, surprised the market with better-than-expected results for the year to February and with a final dividend cut of only a third, following predictions it would be passed.

The final dividend was reduced to 80 cents per share from 120 cents, bringing the payment for the year to 160 cents – a cut of 20 per cent on the 1992 figure.

Mr Eugene van As, executive chairman, said Sappi, which derives 63 per cent of its turnover overseas – had suffered from the turmoil in European currency markets which had driven world paper and pulp prices to uneconomic levels.

He added that the adverse trading conditions had hit all areas of the group's operations, offsetting improved production volumes and better productivity across the group.

Mr van As said unit costs had risen by only 2 per cent during the year. Profits, however, suffered from the weak export climate, lack of domestic economic growth and political uncertainty.

Hannover Papier, the German coated wood-free paper manufacturer, acquired last May, suffered from the recession and adverse exchange rate fluctuations. Mr Van As said it would achieve results close to break-even in the year under review. Sappi Europe, which holds Sappi's UK mills, made a loss while Sappi Trading, the international trading arm, traded profitably.

Turnover for the year rose by 28.5 per cent to R4.7bn, reflecting for the first time the inclusion, for six months, of Hannover Papier.

Profits climb at Sophus Berendsen

By Xueling Lin
in Copenhagen

SOPHUS Berendsen, the Danish conglomerate that controls the UK pest control group Rentokil, increased pre-tax profits by 18.6 per cent to about DKr1.2bn ($194m) for 1992.

The group's turnover was significantly affected by the strength of the Danish krone.

Sales for 1992 increased by 4.2 per cent to DKr7.4bn. At 1991 year-end exchange rates, turnover would have been DKr8bn, an increase of 13 per cent on the previous year.

Mr Hans Werdelin, Sophus Berendsen's chief executive, added that sales for the Rentokil group increased by 19.8 per cent to £465m ($702m) for 1992, but translated into Danish kroner the increase was only 2.7 per cent, to DKr4.4bn.

Earlier this month the Danish group took over the fluid power division of Lucas Industries in Canada. The acquisition makes Sophus Berendsen one of the world's largest autonomous distributors of fluid power products.

First Boston and Merrill Lynch win YPF mandate

By John Barham
in Buenos Aires

FIRST BOSTON and Merrill Lynch, the US investment banks, have won the mandate to act as global co-ordinators in the privatisation of YPF, Argentina's national oil company. The sell-off will be Argentina's largest privatisation.

Mr Daniel Marx, Argentina's top financial negotiator, said no decision had yet been taken on the price or amount of shares to be included in the initial public offering. The offering is planned for June or July.

YPF has an estimated net worth of $8bn and the government will sell 70 per cent of the company in stages.

The First Boston-Merrill Lynch team was widely expected to win the privatisation mandate after it won a contract last year to join a team of consultants and auditors to prepare YPF for an initial public offering.

First Boston has been heavily involved in Argentina's privatisation programme, usually in alliance with other banks. Together with Kleinwort Benson of the UK, it is advising on the sale of hydroelectric companies.

INTERNATIONAL BONDS

French franc Eurobonds attract strong interest

STRONG international interest in French franc Eurobonds is being fuelled by the likelihood of further interest rate cuts. Real interest rates in France are among the highest in Europe, and the strength of the franc since the elections has restored confidence in the currency.

New issue volume has already reached FFr60bn so far this year, almost half of last year's total, according to IFR Securities Data.

With rates set to fall further, some borrowers may bide their time. But further cuts are likely to have limited impact on the long end of the market, as the yield curve is widely expected to steepen.

Several French borrowers are looking at the long end, following a highly successful 19-year issue by Electricité de France last week.

"There has been consistent demand at the long end of the market, while buying at the short end is more speculative," said Mr Luc Cardyn, head of syndicate at Banque Paribas.

The anticipated cuts are expected to complete the transformation of the yield curve from negative to positive, making the market easier to trade. Currently, a trader holding 10-year French bonds yielding, say, 7¼ per cent, has to fund that position in the money market at, say, 9 per cent. This is called a negative cost of carry and it deters traders from holding inventory.

Foreign borrowers have been encouraged by the narrowing of the yield differential between German bunds and French OATs, which is at a historically tight 50 basis points for 10-year bonds.

This means some sovereign borrowers, which had found the market too expensive, are now reconsidering. However, there is still a lack of swap opportunities in the French market, which is likely to deter borrowers who do not want to take French francs.

Nevertheless, the recent decline in rates has encouraged Spain to look again at the market, with a view to raising 20-year funds, without swapping the proceeds, bankers said. Other sovereign borrowers, such as Finland and Sweden, have also been eyeing the market.

But the French market is less dependent than most on attracting foreign borrowers, since it boasts a wealth of strongly-rated French borrowers with a heavy requirement for French franc funding, mainly state-owned monopolies and financial agencies.

The existence of a core of French borrowers has helped establish a strong domestic market. But the strength of investor demand from overseas investors has shifted attention from the domestic market.

So far this year, there has been FFr46bn worth of domestic issues, compared with FFr52bn during the same period last year, according to Crédit Commercial de France.

Stronger demand from international investors has caused a tightening of yield spreads in the Eurobond market relative to the domestic market.

Dealers said that new issues in the Eurobond market can be launched as much as five basis points tighter than in the domestic market. In spite of the potentially higher cost, the European Investment Bank is expected to launch a domestic issue this week.

In practice, the dividing line between international and domestic issues has been largely eroded, as many overseas institutions now buy both Eurobonds and domestic bonds. The main technical difference between the two markets is that Eurobonds are in bearer form and domestic bonds are registered. More importantly, Eurobonds cannot be marketed by French banks through their retail networks, so domestic bonds are more widely held by small investors.

Tracy Corrigan

Signs of revival in syndication sector

ACTIVITY in the syndicated loans market is starting to pick up with several European borrowers waiting to tap the market, according to bankers.

Ayuntamiento de Madrid, the Madrid council, is launching a deal expected to raise about DM160m to finance its 1993 capital expenditure programme. It is being lead-managed by Banco Central Hispano, Sumitomo and West LB.

The six-year deal has a margin of 27.5 basis points over D-Mark Libor, which some European bankers regard as tight pricing.

However, others point out that pricing on loans has already started to edge lower.

Another Spanish borrower, the motorway operator Aumar, is also expected to tap the market soon with a deal of between \$80m and \$100m.

J.P. Morgan expects to launch its \$500m deal for Vattenfall, the Swedish power group, this week. The deal is a five-year loan priced at 40 basis points over Libor, with a commitment fee of 20 basis points on the undrawn amount.

● Investcorp, the Arab-led investment consortium, has signed a \$330m loan facility, its largest to date, which will be used partly to refinance a \$250m revolving credit as well as to provide additional funds for general corporate purposes.

The deal, arranged by Bankers Trust International and Chemical Bank, is a three-year term loan with a margin of 87.5 basis points over Libor. There is a commitment fee of 37.5 basis points on the undrawn balance, and management fees range from 45 basis points for participants to 80 basis points for senior lead managers.

Sara Webb

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Yamanouchi Pharmaceut.(a)ф	200	Apr.1997	4	1.5	100	Nikko Europe	-
BBA Creditanstalt#	50	Oct.1995	2.5	9.5	99.4569	ING Bank	9.750
Co.de Telefonos de Chile(d)§#	35.925	Jan.2003	9.75	4.5	100	Goldman Sachs Intl.	-
Japan Fin.Corp.for Muni.Ent.	250	May.2003	10	6.25	99.82	Bk.of Tokyo Cap.Mkts.	6.275
Bank for Dutch Municipalities	250	May.2000	7	6	101.525	Swiss Bank Corp.	5.729
Banco Cidade#	55	Nov.1995	2.5	10	98.2449	BNP Capital Markets	10.820
Banco Boavista#	55	Oct.1995	2.5	11	99.468	Bear Stearns Intl.	11.250
Creditanstalt-Bankverein(g)‡	50	Apr.2003	9.96	(g)	100.25	Creditanstalt-Bankverein	-
Corp.Andina de Fomento#	100	Apr.1998	5	7.25	99.3825	Chemical Investment Bk.	7.400
Loma Negra(m)#	100	May.1998	5	9.875	99.903	Chase Investment Bank	9.900
YEN							
Yamanouchi Pharma.(b)§#	30bn	Mar.2000	6.93	1.625	100	Nomura International	-
Nissan Motor Co.	10bn	Aug.1998	5.27	4.85	101.625	IBJ International	4.492
Toyota Tsusho Finance Intl.	5bn	Jul.1995	2.26	4.1	100.2	Sanwa International	3.998
D-MARKS							
Kingdom of Norway	1.5bn	May.1998	5	6.125	101.65	Deutsche Bank	5.736
World Bank(h)‡	250	May.2003	10	(h)	100	Trinkaus und Burkhardt	-
McDonald's Corp.	200	May.1998	5	6.25	101.625	Deutsche Bank	5.886
Bancomext (Cayman Branch)	200	May.1998	5	8	101.85	Bayerische Landesbank	7.542
Kingdom of Denmark(n)	1.3bn	Apr.1998	4.92	6.125	(n)	WestLB	(n)
FRENCH FRANCS							
Alcatel Alsthom(e)	1bn	May.1998	5	7.25	100.37	Société Générale	7.159
Electricité de France	2bn	May.2012	19	7.5	98.037	CCF	7.700
STERLING							
Deutsche Bank Fin.Curaçao(f)	100	Dec.1998	5.6	7.25	102.125	Deutsche Bank London	6.769
Tokyo Electric Power Co.	300	May.1998	5	7.125	101.325	CSFB	6.804
Kansai Electric Power Co.	300	Apr.1998	5	7.125	100.985	SG Warburg Secs./ BZW	6.886
CANADIAN DOLLARS							
Toyota Credit Canada	150	Jun.1998	5	7.125	100.55	Hambros Bank	6.991
City of Winnipeg	125	May.2003	10	8.5	101.375	Wood Gundy	8.292
Banque Nationale de Paris(i)	80	Apr.2003	9.96	7.75	99.975	Hambros Bank	7.752
ITALIAN LIRA							
Bayerische Landesanstalt	150bn	May.2000	7	10.625	100.7	BAI Milan	10.479
World Bank	200bn	May.2003	10	10.8	101.875	San Paolo, Turin	10.488
Bayerische Landesbank	150bn	May.2003	10	11	101.475	Banca di Roma	10.752
ECUS							
Eutelsat	100	May.1998	5	7.5	101.45	Paribas Capital Markets	7.145
GUILDERS							
IADB	300	May.2003	10	6.625	100.85	ABN Amro Bank	6.507
SWISS FRANCS							
Sokkia Co.(c)*ф	80	Apr.1997	4	0.75	100	BSI	-
Rhône-Poulenc	250	Jun.2000	7	5	101.75	Credit Suisse	4.701
Daiichi Pharmaceutical(j)*ф	200	Apr.1997	4	0.75	100	Credit Suisse	-
Kingdom of Denmark*	150	May.1999	6	4.75	102.25	Swiss Bank Corp.	4.316
Union Industrielle de Credit	100	May.1998	5	5.125	101.875	Coutts & Co.	4.696
Kamigumi Co.(k,l)*ф	300	May.1997	4	0.625	100	Nomura Bank (Switz.)	-
Tokyo Sangyo Co.(k)*ф	45	May.1997	4	0.5	100	Nikko Bank (Switz.)	-
LUXEMBOURG FRANCS							
BIL	1bn	May.2003	10	7.5	102.1	BIL	7.198
European Investment Bank	1.5bn	May.1998	5	7	102.5	Kredietbank Lux.	6.400
Banque Indosuez	1bn	May.2003	10	7.75	102.125	BGL	7.441
Cregem Finance	1bn	May.2003	10	7.5	102.1	Cregem Intl.Bank	7.198
Rhône-Poulenc Commer.Fin.	1bn	May.2000	7	7.625	102.1	BGL	7.232

Final terms and non-callable unless stated. *Private placement. §Convertible. фWith equity warrants. ‡Floating rate note. #Semi-annual coupon. a) Denom.: \$10,000 + 2 warrants. Exercise price: Y2583. FX: 113.70Y/\$. b) Conversion price: Y2583. Callable on 1/4/94 at 103% declining by 0.5% per annum, subject to the 130% rule. c) Denom.: SFr50,000 + 50 warrants. Exercise price: Y1589. FX: 78Y/SFr. Callable on 2/4/94 at 101.5% declining by 0.25% semi-annually. d) International tranche; fully fungible with the \$35.925m US tranche. Conversion price: \$4.79. Callable on dates from Apr.1997. Redemption price at maturity: 112.68%. e) Issue launched on 8/4/93 was increased to FFr3bn. f) Fungible with the outstanding £200m. Plus 55 days accrued interest. g) Fungible with the outstanding \$200m launched on 10/3/93. Plus 13 days accrued interest. Coupon pays 6-month Libor - 0.125%: minimum 5%, maximum 8.25%. h) Coupon pays 7.375% fixed annual in the first 2 years and 12.25% - 6-month Libor thereafter. i) Fungible with the C\$150m launched on 10/3/93. Plus 15 days accrued interest. j) Final terms fixed on 19/4/93. Callable on 27/4/95 at 101% and on 27/4/96 at 100.5%. k) Final terms fixed on 21/4/93. l) Callable on 6/5/95 at 102% declining by 0.5% semi-annually. m) Puttable on 4/5/96 at 93.650%. n) Priced today to yield 12-14 bp over the Bobl 105 at the re-offer price. Fungible with the outstanding DM700m. Plus 29 days accrued interest. Note: Yields calculated on ISMA basis.

RISK AND REWARD

High-tech path to holy grail may lead up a blind alley

IN obscure corners of the investment world in the US and the UK, the first products of a new generation of investment technology are being put to the test. Experience seems to have been mixed, in spite of the claims of enthusiasts. Even the experts disagree on whether the latest thinking is leading down a blind alley, or whether it will open the way to the holy grail of investment management – higher returns without higher risks.

The latest products revolve around so-called "non-linear" methods of analysing economic and financial data. Traditional statistical methods – the sort of procedures underpinning most quantitative investment models, which attempt to predict movements in financial markets based on historical data – have several flaws.

Perhaps the most serious is that the relationship between market prices, and the factors that determine them, changes over time. The only sure thing is that what happened before will not happen the same way again.

Theories and techniques developed in branches of science far removed from the financial markets are now being brought into play. To orthodox capital market thinkers, they are based on a heresy: that market prices do not follow a "random walk", where it is impossible to tell from the last price what the next one will be.

The approaches being used include the use of "neural networks" (networks of computer processing units whose interaction is meant to replicate the learning process of the human brain) and "genetic algorithms" (a method of generating better hypotheses about how markets work by starting with a wide range of assumptions and using them to "evolve" new and better views). Chaos theory – which holds that it is often possible to identify short-term patterns in apparently random data – is also being put to work.

The first products of this thinking are finding their way out of academia and research labs and into investment management and trading houses. The UK's Department of Trade and Industry last month agreed to fund a £1m "club" aimed at finding financial market applications for work on neural networks being undertaken at University College, London.

Several investment houses, including County NatWest Investment Management, have shown an interest. Citibank in London has been investigating the use of such methods for foreign exchange trading since the late 1980s.

Mr Paul Refenes of UCL says a New England insurance company using a fixed-income fund management model since late last year has outperformed the J.P. Morgan world government bond index by a factor of two.

The Prediction Company in Santa Fe is typical of the new rash of hopefuls. Formed by experts from the physical sciences less than two years ago, it has received backing from O'Connor, the Chicago-based derivatives firm, to develop new investment management approaches.

The question posed by each of these is the same: is there a pattern or structure to movements in financial markets that can be isolated and used as the basis for investment or trading? Mr Ben Peters of PanAgora, a Boston-based asset management company, claims stock markets move in clear cycles – four years in the US and Japan, two and a half in the UK and six in Germany. Foreign exchange markets, though, are closer to the "random walk", though with certain biases reflecting central bank steering of rates.

"It is still an open question whether the structure in financial data is caused by chaos or some other underlying factor," says Mr Norman Packard of The Prediction Company, which has concentrated on foreign exchange and futures markets.

Ironically, the current generation of technical trading models may give the "rocket scientists" something to feed off. Markets where technical trading plays a large part, such as the futures markets, might show a clearer structure than others, says Mr Packard.

The same could be true of indexation and active quantitative investment management.

Richard Waters

UK GILTS

Inflationary pressures cloud over the sector

WORRIES about demand pressures took centre stage on the back of higher-than-expected inflation data.

The frowns in the bond market are likely to perplex many consumers and industrialists who still see little sign of any UK recovery. None the less, talk of a return to UK growth later this year, and its effect on depressing bond prices, has become a feature in the financial community.

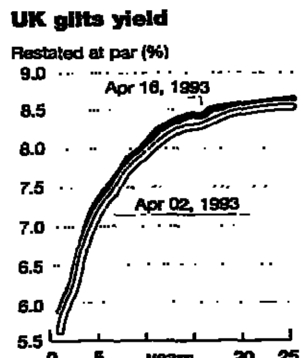
Accordingly, after months in which gilt investors were extremely relaxed about possible inflationary pressures, the market was taken aback by the announcement on Friday that the retail prices index rose in the year to last month by 1.9 per cent, from 1.8 per cent in February.

More frissons of concern were sparked by news that the underlying measure of inflation, as registered by the RPI less mortgage costs, rose to a year-on-year 3.5 per cent last month from 3.4 per cent the month before.

Long-dated gilts lost about 1 point on the day, with investor sentiment being further dampened by the Bank of England's announcement that it will auction a further tranche of gilts on April 28, when the conventional stock on offer will have a maturity between 1996 and 1999.

The Bank will announce further details tomorrow. Many are assuming that it will sell between £2bn and £3bn of relatively short-dated stock as part of the effort of funding this financial year's government deficit, expected to be about £50bn.

Over the week as a whole, gilts at both ends of the yield curve were pushed up, by about 20 basis points for short-dated maturities and roughly half that at the long end. The yield on a 10-year gilt was quoted on Friday night at just above 8 per cent, after a long spell at lower levels.



The changes during the week at the short end of the curve were due largely to impressions that, with a number of signs of increased demand pressures, the UK government was unlikely to sanction an imminent cut in base rates from 6 per cent.

Indeed, in money markets on Friday there was even talk, somewhat far-fetched on the grounds of the subdued state of much of the economy, about the need for a base rate rise in order to stem possible inflationary pressures.

According to Mr Simon Briscoe, an economist at Midland Global Markets, the inflation figures were "quite worrying". Many in financial markets believe the government might be forced to abandon its target of keeping underlying inflation at below 4 per cent.

That is even though the introduction this financial year of the council tax as opposed to the more expensive poll tax is expected to reduce the tax burden on the average household and thus help to put a ceiling on the measure for underlying inflation.

Mr Leo Doyle, an economist with Kleinwort Benson, said he was particularly concerned about the increase in prices of items such as household goods, clothing and footwear.

Clothing and footwear prices rose by 1.9 per cent in March from February after a 1.8 per cent month-on-month rise in February, underlining that shopkeepers are feeling more relaxed about increasing prices in a bid to rebuild profit margins.

Food prices have also been pushed up, partly due to the devaluation of the green pound following the UK's departure from the European exchange rate mechanism. Meanwhile, the signs of improved economic activity, including higher house sales and a 4.5 per cent year-on-year rise in the week to April 14 of notes and coins in circulation, may have given a general boost to price pressures throughout the economy.

Even so, concern about inflation may be slightly overdone.

According to a Midland inflation index, which strips out erratic changes in prices and accounts for about 75 per cent of the RPI, underlying inflation has increased from a year-on-year 2.5 per cent in January to 2.9 per cent in March. However, in September last year inflation on this measure was 3.7 per cent and in October it was 3.4 per cent.

Peter Marsh

US MONEY AND CREDIT

Calm returns as fears of reflation dissipate

INVESTORS in US Treasury bonds have calmed down over the past 10 days.

Their exaggerated and mistaken fear of reflationary pressures – based on scattered price statistics, overdone concern about the impact of the Clinton administration's fiscal stimulus package and a belief the US economic recovery was getting stronger – has dissipated.

As the inflation concerns have subsided, the market has entered another rally cycle, although this is one in which price and yield movements occur amid relatively thin and choppy trading volumes.

The market's fears of inflationary pressure have, among other things, been assuaged by new consumer price statistics and the statement last week of President Bill Clinton's willingness to cut by 25 per cent the size of his proposed fiscal stimulus package.

It now seems inevitable that the size of the public spending package will be substantially cut. The broader view of some economists – that the US economy's recovery may be picking up but remains fragile – would explain why the danger of reflation has been overdone.

A more considered analysis of the US economy suggests structural problems in the financial services and manufacturing sectors are being addressed, but slowly; that consumer confidence has by no means returned in any great measure; that the US housing and commercial property markets remain weak and bumpy; and that the US trade deficit cannot be easily vanquished in the near term, and certainly not during a period of economic weakness in Japan and protracted recession in Europe.

But the Treasury sector is a market which is almost always governed by knee-jerk reactions.

On Friday, the price of the 30-year benchmark Treasury bond declined by 1/8 of a point, to yield 6.75 per cent, only slightly above the 6.71 per cent level of Thursday, which was the lowest yield for the 30-year paper in 16 years. Although trading volume was reported to be thin, Friday's yield was none the less 20 basis points lower than the previous week's level, which was a substantial improvement for investors.

This week the menu of statistics to be digested by bond traders will include tomorrow's figures on US housing starts in March; no great change is expected from the previous month's 1.19m units.

Durable goods orders in March will be disclosed on Friday, and are expected to be down by 1 per cent.

The outlook for a continuing bond market rally is enhanced by the prospect of a further easing of monetary policy by Germany's Bundesbank, a move that could come later this week.

Looking beyond this week it seems quite possible that yields in the longer end of the US Treasury market will fluctuate between 6 per cent and 7 per cent.

That would be the likely trend during a period of stop-go recovery, with jobs data, inflation figures, consumer confidence and housing statistics bouncing around between stasis and prospective growth.

Separately, last week's ruling by the US Financial Accounting Standards Board that banks and insurers must mark-to-market their bond holdings – show current market rather than book values each quarter – seems unlikely to pose structural problems.

The changes could lead some insurers and banks to shorten the maturities in their portfolio, and could even cause some to reduce the absolute quantities of bonds held.

But the FASB rule is not likely to have a big impact on the overall Treasury market; it is more of a challenge for accountants, company controllers and preparers of balance sheets.

Alan Friedman

BELGIAN GOVERNMENT BONDS

Investors sense stark sentiment change

FOR THE first time in years, uncertainty, scourge of the financial markets, is stalking Belgian government bonds.

The change in sentiment is all the more striking because it followed a new year surge of investment, encouraged by the authorities' informal commitment to keep the franc close to the D-Mark. By January, the yield on the 10-year Belgian benchmark bond had narrowed to 40 basis points over its German equivalent, compared to a spread of more than 120 basis points last August.

But speculative challenges to the currency in February shook the Belgian franc's reputation as a surrogate for the D-Mark. Then, at the end of last month, Belgium's fragile centre-left coalition submitted its resignation after failing to agree on how to curb the growing budget deficit.

In the event, it took only a week for Mr Jean-Luc Dehaene, the prime minister, to forge a new agreement on austerity budget measures, aimed at raising or saving some BFr113bn up to the end of next year. The Belgian National Bank, keen to revive confidence, was able to drop interest rates back to below pre-crisis levels.

But although the government has avoided elections and agreed an austerity package, the bond market could take much longer to recover.

Belgium is a small country, often riven by disputes between Dutch-speaking Flemings and French-speaking Walloons. In theory, its financial markets are accustomed to political turmoil. What makes the latest crisis different is that it has drawn investors' attention to worsening public finances, and has raised questions about the federal future of the country.

Belgium's budget deficit last year rose to BFr485bn, or 6.9 per cent of gross domestic product. Other economic indicators – such as inflation and current account surplus – look healthy, but analysts expect total government debt to increase by at least the same amount again this year.

Meanwhile, plans to devolve more powers to Belgium's regions have raised fears that regional governments will allow debt to spiral out of control, and increase the possibility of Belgium splitting into two or more feuding regions.

In fact, the constitutional reform proposals which are passing through the national parliament will hardly alter the central state's control over public finances. But the effect on bond market sentiment has been dramatic. The yield spread on the 10-year bond rose to 90 basis points over the German 10-year bond at the height of the crisis, slipping back to 80 basis points by last week.

The question is whether the government's austerity package will bring the deficit down to 5.8 per cent of GDP this year and 4.7 per cent next, as it has forecast. Analysts think not. They fear some of the most important measures will not be implemented quickly enough to put Belgium back in line with the EC's target for monetary union of a 3 per cent deficit-to-GDP ratio by 1996.

J.P. Morgan warns that yield differentials with Germany could return to three figures. "I don't see a lot of upside potential, and a lot of downside if things are seen to be going wrong," says Mr Jacques Longerstaey, head of bond sales and trading with J.P. Morgan in Brussels.

On the other hand, Mr Roger Rosier of the Belgian bank, Générale de Banque, believes an 80 basis point spread over German bonds makes Belgian government bonds quite attractive. But he agrees the yield spread is unlikely to narrow to less than 75 basis points, and could rise as high as 100 in the coming months.

In the meantime, the government is not afraid to introduce two new bonds at its next auction on April 22. One of those – carrying a 7 per cent coupon and maturing in 2004 – is expected to become the new benchmark 10-year bond.

As Mr Rosier of Générale de Banque points out: "It's obvious that the mini-crisis we have seen has raised certain questions. People will definitely watch what's going on very closely in future."

Andrew Hill

FT/ISMA INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHT	Issued	Bid price	Chg on week	Yield
ABB INTL FIN 6 3/8 98	[illegible]	[illegible]	[illegible]	5.75
ASN 9 1/8 94	[illegible]	[illegible]	[illegible]	[illegible]
AETNA LIFE & CAS 7 3/4 16	[illegible]	[illegible]	[illegible]	7.67
ALBERTA PROVINCE 8 5/8 96	[illegible]	[illegible]	[illegible]	[illegible]
ALBERTA PROVINCE 9 3/8 95	[illegible]	[illegible]	[illegible]	4.64
AMERICAS EXPRESS 9 00	[illegible]	[illegible]	[illegible]	[illegible]
AMERICAN GENERAL 9 3/4 96	[illegible]	[illegible]	[illegible]	4.36
AMERICAN INTL 0 34	[illegible]	[illegible]	[illegible]	7.04
AMOCO CANADA 7 1/4 02	[illegible]	[illegible]	[illegible]	[illegible]
ASFINAG 7 3/8 02	[illegible]	[illegible]	[illegible]	6.35
ASIAN DEV BANK 0 04	[illegible]	[illegible]	[illegible]	[illegible]
ASIAN DEV BANK 8 96	[illegible]	[illegible]	[illegible]	[illegible]
AUSTRALIA 11 95	[illegible]	[illegible]	[illegible]	4.65
AUSTRIA 7 3/4 97	[illegible]	[illegible]	[illegible]	[illegible]
AUSTRIA 8 1/2 02	[illegible]	[illegible]	[illegible]	[illegible]
AUSTRIA 9 1/4 96	[illegible]	[illegible]	[illegible]	4.96
BANK OF TOKYO 8 3/8 96	[illegible]	[illegible]	[illegible]	[illegible]
BANQUE PARIBAS 7 1/2 96	[illegible]	[illegible]	[illegible]	[illegible]
BARCLAYS JERSEY 10 5/8 95	[illegible]	[illegible]	[illegible]	4.35
BASF FIN EUROPE 7 99	[illegible]	[illegible]	[illegible]	[illegible]
BAYER USA 8 1/4 96	[illegible]	[illegible]	[illegible]	[illegible]
BELGIUM 8 97	[illegible]	[illegible]	[illegible]	[illegible]
BELGIUM 8 3/4 98	[illegible]	[illegible]	[illegible]	[illegible]
BELGIUM 9 2 10	[illegible]	[illegible]	[illegible]	[illegible]
BELGIUM 9 5/8 98	[illegible]	[illegible]	[illegible]	[illegible]
BFCE 7 3/4 97	[illegible]	[illegible]	[illegible]	[illegible]
BFCE 9 1/4 95	[illegible]	[illegible]	[illegible]	[illegible]
BMW LEASING 7 3/8 96	[illegible]	[illegible]	[illegible]	[illegible]
BNP 8 5/8 94	[illegible]	[illegible]	[illegible]	4.36
BOOTS 9 97	[illegible]	[illegible]	[illegible]	[illegible]
BP AMERICA 9 3/4 99	[illegible]	[illegible]	[illegible]	6.41
BPCA FINANCE 8 3/8 98	[illegible]	[illegible]	[illegible]	6.30
BRITISH COLUMBIA 7 3/4 02	[illegible]	[illegible]	[illegible]	6.43
BRITISH GAS 0 21	[illegible]	[illegible]	[illegible]	8.23
BRITISH TELECOM FIN 8 3/4 99	[illegible]	[illegible]	[illegible]	[illegible]
BRITISH TELECOM FIN 9 3/8 95	[illegible]	[illegible]	[illegible]	[illegible]
CAISSE NAT ENERGIE 11 3/4 95	[illegible]	[illegible]	[illegible]	4.33
CANADA 9 96	[illegible]	[illegible]	[illegible]	4.57
CANADA 10 95	[illegible]	[illegible]	[illegible]	4.51
CANADIAN PACIFIC 7 1/2 96	[illegible]	[illegible]	[illegible]	5.53
CARIPLO 8 3/4 98	[illegible]	109	[illegible]	6.64

U.S. DOLLAR STRAIGHT (contd)	Issued	Bid price
SEARS O/S FIN ZERO 98	500	70
SEARS ROEBUCK EURO 9 3/4 95	500	108¼
SKANDINAVISKA ENSK 7 3/8 97	500	103¼
SNCF 9 1/2 98	150	117¼
SPAIN 6 1/2 99	1500	102
STATE BK NSW 8 1/2 96	200	109¼
SWEDEN 5 1/2 95	2000	102¼
SWEDEN 6 1/2 03	2000	100⅞
SWEDEN 9 1/4 98	350	115
SWEDISH EXPORT 8 3/8 96	700	109¼
THYSSEN FINANCE 7 1/2 99	200	104¼
TOHOKU ELEC POWER 7 3/4 97	250	107⅝
TOKAI ASIA 11 1/2 95	100	112¼
TOKYO ELEC POWER 8 3/4 96	300	111
TOKYO METROPOLIS 8 1/4 96	200	110¼
TOKYO METROPOLIS 9 1/4 94	200	106¼
TOYOTA MOTOR 5 5/8 98	1500	100¼
TOYOTA MOTOR 6 7/8 97	1000	105¼
TOYOTA MOTOR CRED 8 1/2 94	200	105⅝
UBS FIN 9 1/8 02	225	116¼
UNILEVER CAP CORP 9 1/4 00	400	117¼
UNION BK FINLAND 8 94	200	102¼
UNITED KINGDOM 7 1/4 02	3000	107⅛
URUGUAY 8 1/4 95	100	102⅞
VENEZUELA 9 3/4 96	150	101⅛
VICTORIAN PUB AUTH 9 3/8 95	100	107⅝
WARNER-LAMBERT 8 7/8 95	100	108½
WORLD BANK 9 3/8 01	1500	113⅝
WORLD BANK 8 3/8 99	1500	113⅜
WORLD BANK 8 3/4 97	1500	113¼
XEROX CORPN 8 3/8 96	100	108¼
YOKOHAMA 9 01	200	110⅝

FLOATING RATE NOTES	Issued	Bid price
ALASKA HOUSING 1/10 01	125	98.88
ALLIANCE & LEICS 0.08 94 £	300	99.81
ALLIANCE & LEICS 0.1 95 £	150	99.80
AMERICAN EXPRESS BK 1/8 99	200	94.46
ANGLIA 1/8 98 £	100	99.98
ANZ BANKING 0.15 PERP	300	75.17
AUSTRIA -0.15 05 DM	700	96.07

هكذا من الكويت

THE WEEK AHEAD

ECONOMICS

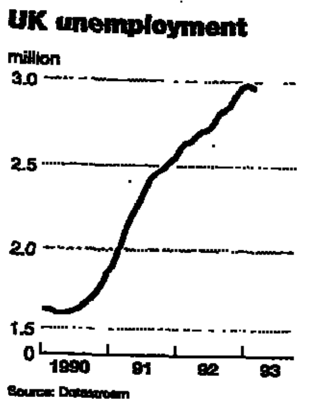
Signals may point to UK recovery

THE MARCH unemployment figures will be the main focus of attention in the UK this week. Economists are waiting to see whether February's surprise 22,000 drop in the jobless total heralded a turnaround in the employment picture. Most believe it was erratic and that last month unemployment climbed again by about 25,000.

Other UK figures this week may, however, add to the fairly convincing signs of recovery in the economy. Retail sales are expected to be roughly flat, month on month, but the annual rate of increase is forecast to rise to over 3 per cent. There is also a survey of the retail sector from the Confederation of British Industry this week, and figures for bank and building society lending.

The picture in Germany is likely to be less rosy with inflationary indicators this week forecast to reflect the recessionary forces gripping the west German real economy. Pay settlements in the 1993 pay round have tended to run at about 3 per cent, there is virtually no producer price inflation and money supply growth appears to be falling into its target range.

Other economic highlights and figures this week follow. The figures in brackets are the median of analysts' forecasts, provided by MMS International, a financial information company.



Today: Switzerland, Monthly BIS meeting of G10 central bank governors; Luxembourg, EC and EFTA finance ministers discuss initiatives to promote economic growth; Denmark, March consumer prices index (up 0.3 per cent on month, up 1.2 per cent on year); Sweden, March unemployment (7.5 per cent); Canada, March department sales (down 2.5 per cent on year), February manufacturing new orders (up 0.8 per cent on month), February manufacturing shipments (up 0.9 per cent on month); Australia, February housing finance; Japan, March money supply – M2 and CD (up 0.1 per cent on year), March broad liquidity.

Tomorrow: UK, March Confederation of British Industry distributive trades survey, March public sector borrowing requirement (£8bn); France, February industrial production (down 0.2 per cent on month, down 4.3 per cent on year); Sweden, March trade balance (SKr5.5bn surplus); US, March housing starts (1.17m), March building permits; Canada, February building permits (down 2 per cent on month).

Wednesday: Germany, Bundesbank monthly report for April released; US, March Treasury budget (down $40bn); Canada, March CPI (up 0.4 per cent on month, up 2.5 per cent on year), excluding food and energy (up 2.2 per cent on year).

Thursday: Germany, French prime minister Balladur meets chancellor Kohl, Bundesbank council meeting to include establishment of the 1992 Bundesbank profit; UK, March unemployment (up 25,000), February average earnings (4.5 per cent), February unit wage costs (down 1.3 per cent in latest 3 months); Sweden, government presents supplementary budget to parliament; US, sate benefits week ended April 10, initial claims week ended April 17 (350,000), money supply data for week ended April 12;

Friday: UK, March retail sales (flat on month, up 3.5 per cent on year), M4 (up 0.7 per cent on month, up 3.6 per cent on year), M4 lending (£1.3bn); France, April CDP; US, March durable orders (down 0.5 per cent), March durable shipments, auto sales April 11-20 (6.4m); Australia, March motor vehicle registrations (up 2.3 per cent on year).

During the week: Germany, March producer prices index – west (up 0.1 per cent on month, up 0.3 per cent on year), March M3 (up 0.8 per cent), April preliminary cost of living (up 0.3 per cent on month, up 4.2 per cent on year); Finland, March trade balance (FM1.5bn surplus); Italy, April CPI – cities, March industrial production, February WPI, February PPI, March bank lending, March M2.

Emma Tucker

PARLIAMENTARY DIARY

■ **TODAY**
Commons: Questions to Transport ministers, Public Accounts Commission, Commons Commission and Commons Leader. European Communities (Amendment) Bill, committee.
Lords: Housing and Urban Development Bill, committee.
Select committees: Public Accounts, subject: administration of student loans. Witnesses: Sir Geoffrey Holland, permanent secretary, department for education; Mr R F Harrison, chief executive, Student Loans Company (Room 16, 4.30pm).
Home Affairs, subject: the prison service. Witnesses: Mr Peter Lloyd, home office minister; Mr Derek Lewis, director general and chief executive, Prison Service (Room 15, 4.45pm).

■ **TOMORROW**
Commons: Defence questions. Questions to the Prime Minister. Debate opened by Opposition on "bringing stability to the nation's schools". Charities Bill, all stages. Clean Air Bill, all stages. Radioactive Substances Bill, all stages. Financial Provisions (Northern Ireland) Order.
Lords: Education Bill, committee. Protection of Animals (Scotland) Bill, committee.
Select committee: Social Security, subject: public expenditure review. Witness: Mr Peter Lilley, social security secretary (Room 15, 11am).

■ **WEDNESDAY**
Commons: Trade and Industry questions. European Communities (Amendment) Bill, committee.
Lords: Debate on Procedure Committee report. Debate on local democracy. Disabled Persons (Services) Bill, second reading. Debate on benefits of bicycling.
Select Committees: Environment, subject: the Housing Corporation. Witness: Sir George Young, housing minister (Room 16, 9.15am).
Foreign Affairs, subject: public expenditure. Witness: Mr Timothy Lankester, permanent secretary, Overseas Development Administration (Room 6, 10.30am).
Scottish Affairs, subject: the government's expenditure plans 1993-94 to 1995-96. Witnesses: Mr Ian Lang, Scottish secretary; Miss E.A. Mackay, principal finance officer, Scottish Office (Room 8, 10.30am).
Trade and Industry, subject: the British aerospace industry. Witnesses: the General Electric Company; Confederation of Shipbuilding and Engineering Unions; Dowty Aerospace (Room 20, 10.30am).
Welsh Affairs, subject: rural housing. Witnesses: Welsh Office and Planning Inspectorate officials (Room 18, 10.30am).
Agriculture, subject: the effects of conservation measures on the UK sea fishing industry. Witnesses: UK fisheries departments (Room 15, 10.45am).
Transport, subject: London bus deregulation. Witnesses: Dr P Goodwin, Transport Studies Unit, Oxford; London Transport; Grey-Green Coaches, Kentish Bus & Coach Co and London & Country (Room 17, 3.15pm).
Employment, subject: (1) management of redundancies (2) the import and export of jobs. Witness: Sir Denys Henderson, chairman, Imperial Chemical Industries (Room 20, 4.15pm).
Health, subject: responsibilities of director of research and development and the chief statistical officer, department of health. Witnesses: director of research and development and the chief statistical officer, department of health (Room 21, 4.15pm).
Public Accounts, subject: expenditure by West Midlands Regional Health Authority. Witnesses: Sir Duncan Nichol, chief executive NHS Management Executive; Sir James Ackers, former chairman, West Midlands Regional Health Authority; Mr Stuart Fletcher, former regional general manager, West Midlands Regional Health Authority (Room 8, 4.15pm).
Education, subject: unfinished business: full-time educational courses for 16-19 year-olds. Witnesses: Audit Commission and the Office for Standards in Education (Room 18, 4.30pm).
Home Affairs, subject: inter-governmental co-operation in Justice and Home Affairs matters. Witness: Mr Kenneth Clarke, home secretary (Room 15, 4.45pm).

■ **THURSDAY**
Commons: Northern Ireland questions. Questions to the Prime Minister. European Communities (Amendment) Bill, committee.
Lords: Education Bill, committee.
Select committees: National Heritage, subject: the price of compact discs. Witnesses: W.H. Smith Group; HMV; Tower Records; Music Discount Centre (Room 15, 10.30am).
Defence, subject: SA80. Witnesses: MoD officials (Room 16, 10.50am).

■ **FRIDAY**
Commons: Backbench business – Road Traffic (Driving Instruction by Disabled Persons) Bill, report. Freedom and Responsibility of the Press Bill, report.
Lords: Not sitting.

RESULTS DUE

ASSOCIATED BRITISH FOODS, the bread to sugar group, reports interim results today and is likely to show little change on the £175.2m pre-tax in the comparable period. While baking margins are still under pressure, the group's British Sugar division is expected to have gained from the green pound devaluation.

Hammerson, the UK's third biggest property company, will tomorrow reveal the damage inflicted by the collapse of the property market in the UK, Canada and Australia, its main markets. Analysts expect pre-tax profits to fall from £55.5m to around £43m, while net assets per share may fall from 637p to 470p. It is expected to unveil a cut in its 1992 dividend payout from 20.5p to 10p, as indicated by its interim results in October.

Smiths Industries, the defence and aerospace components group, is expected to report on Wednesday a drop in interim pretax profits from £44m to about £40m. Analysts believe restructuring could lead to significant exceptional costs.

Albert Fisher, the food processing and distribution group, reports interim results on Thursday, with the City expecting a drop in pre-tax profits from £37.2m to about £25m. Some expect the interim dividend to be reduced (1.85p last time).

UK COMPANIES

■ **TODAY**
COMPANY MEETINGS:
Record Hldgs., Parkway Works, Kettlebridge Road, Sheffield, 11.45
USDC Inv. Trust, 8, Devonshire Square, E.C., 2.30
BOARD MEETINGS:
Finals:
Asda Property
Bisichi Mining
Greenacre
Ibstock Johnsen
London & Assoc. Inv.
Interims:
Aberforth Split
Assoc. British Foods
EFM Dragon Trust
Five Oaks Invs.
Keystone Inv.
Lon. & St. Lawrence Inv.
Scot. Metrop. Property

■ **TOMORROW**
COMPANY MEETINGS:
Abbey National, Barbican Centre, E.C., 11.00
Chieftain, Gosforth Park Hotel, Newcastle upon Tyne, 12.00
Commercial Union, Chartered Insurance Institute, 20, Aldermanbury, E.C., 11.30
Dunedin Inc. Growth Inv. Trust, Dunedin House, 25, Ravelston Terrace, Edinburgh, 12.00
Law Debenture, Princes House, 95, Gresham Street, E.C., 10.30
London Forfaiting, International House, 1, St. Katherine's Way, E., 12.30
Pacific Assets Trust, 1, Charlotte Square, Edinburgh, 12.30
Transatlantic Hldgs., 40, Broadway, S.W., 12.00
BOARD MEETINGS:
Finals:
Beckenham
Bentalls
Bodycote Intl.
Boosey & Hawkes
Boot (Henry)
British Fittings
EIS Group
Freeman
Hammerson Prop.
Huntleigh Tech.
Ropner
Sec. Tst. of Scotland
Thames TV
Interims:
St. Ives
Shani

■ **WEDNESDAY APRIL 21**
COMPANY MEETINGS:
Laporte, Painters Hall, Little Trinity Lane, E.C., 12.00
Rea Brothers, Great Eastern Hotel, Liverpool Street, E.C., 12.00
BOARD MEETINGS:
Finals:
Austin Reed
Dencora
English National Inv.
Fleming Inc. & Cap.
Forward
Havelock Europa
Helical Bar
Jerome (S.)
Wembley
Interims:
Amber Day
Regina
Smiths Inds.

■ **THURSDAY APRIL 22**
COMPANY MEETINGS:
Acorn Computer, St. John's College, St. John's Street, Cambridge, 10.00
Hall Engineering, Telford Moat House, Forgegate, Telford, 10.30
Sedgwick, Conference Forum, Sedgwick Centre, E., 12.00
BOARD MEETINGS:
Finals:
Abtrust New Euro.
Fleming Contl. Euro.
Liberty
River & Merc. Geared Cap.
Yorklyde
Interims:
Deutschland Inv.
Fisher (A.)
Govett Strategic Inv.
Tweefontein Utd. Colliery

■ **FRIDAY APRIL 23**
COMPANY MEETINGS:
Gartmore Emerging Pacific Inv. Trust, 16-18, Monument Street, E.C., 12.30
Hewitt Group, Stoke-on-Trent Moat House, Festival Way, Etruria, Stoke-on-Trent, 11.00
Smaller Companies Inv. Trust, 99, Charterhouse Street, E.C., 12.30
Transport Development Group, Glaziers Hall, 9, Montague Close, S.E., 12.00
BOARD MEETINGS:
Finals:
Berry Starquest
Brit Empire Sec & Gen
Cap. & Regional Prop.
Govett Oriental
Holt (Joseph)
How Group
Linton Park
Lopex
Reed Executive
Slingsby (H.C.)
Interims:
Air London Intl.
Jersey Electric
VTR

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
Crest Nicholson 0.01p
Dalgol Chem. 5.1% Bd. 1997 Y134583.0
Do. 5.6% Bd. 2000 Y147778.0
Dixons 11% Bd. 1995 £110.0
E.I. Du Pont 8½% Nts. 1996 $85.0
Gen. Motors 11¼% Nts. 1994 Ecu111.25
GKN 9¾% Gtd Db '91/96 £2.991781
Do 10½% Gtd Db '90/95 £3.221918
Do. 10¾% Gtd Db '92/97 £3.28863
Hanson 10% Bd. 2006 £500.0
Hydro-Quebec 11.25% Db. Ser. HV April 2001 *£112.50*
Johannesburg Cons. R0.42
Lin. Printing Tochs 0.35p
Nokia Free Pf. FM2.0
Persimmon 5.8p
Pochin's 8p
Vaktra Corp. R0.09
Wells Fargo Flg. Rate Sb. Nts. July 1997 $90.63

■ **TOMORROW**
Asda 10⅞% Bd. 2010 £1087.50
Boddington 4.7p
Gen. Motors Acceptance Corp. of Can. 11¾% Nts. April 1994 C$117.50
Grahams Rintoul 0.25p
Islington Corp. 11.9% Rd. 2017 £5.95
M & G Inc Inv Pckge Units 0.75p
Do. Geared Units 0.75p
Do. Inc. 0.75p
Osterreichische Postsparkasse 10½% Nts. 1994 $525.0

■ **WEDNESDAY APRIL 21**
Amstrad 0.2p
Anglo & Overseas Tst. 5.1p
Asda Fin. 10¾% Cv. Cap. Bd. 2005 £268.75
BBL Int. Gtd. Flg. Rate Nts. 1999 $126.39
BZW Conv. Inv. Tst. 1.5p
Bank of New York Overseas Fin. Gtd. Flg. Rate Sb. Nts. Jan.1996 $131.25
Barclays Und. Flg. Rate Prim. Cap. Nts. Ser.3 *£4623.29*
Citicorp Overseas Fin. Gtd. Flg. Rate Nts. 1992 $79.69
Dunedin Inc Growth Inv 17p
Eurocamp 6.3p
Leeds Permanent Bldg. Scty. 10⅛% Sb. Bd. 1998 £525.0
Do. Flg. Rate Nts. 1994 £88.92
Malaysia Flg. Rate Nts. 2015 $265.42
Mitsubishi Warehouse & Trans. 6.35% Bd. 1997 Y635000.0
NatWest Und. Var. Rate Nts. ($100000.0 Br Nts.) $1028.13
Nationwide Bldg. Scty. Flg. Rate Nts. 1998 £88.30
Northern Rock Bldg. Scty. Flg. Rate Nts. 1995 £88.61
Okobank Var. Rate Sb. Nts. 2000 $98.13
PWS Hldgs. 2.5p
Robeco (Br) FL3.52
Do (Sub) FL0.352
Rolinco FL3.04
Do. (Sub) FL0.304
3i Grp. Flg. Rate Nts. 1994 £88.61
TSB 10¾% Sb. Ln. 2008 5.3125p
Treasury 4⅝% I.L. 2004 £1.8017
Woolwich Bldg. Scty. Flg. Rate Nts. 1993 £177.23

■ **THURSDAY APRIL 22**
Abbey Natl. Treas. Servs. 10½% Gtd. Nts. *1997 £1050.0*
Anglovaal R0.33
Do. N R0.33
Britannia Bldg. Scty. Flg. Rate Sb. Nts. 2005 £18570.21
Grosvenor Dev. Cap. 1p
Halifax Bldg. Scty. 10% Nts. 1993 £100.0
Heywood Williams 8p
Nat. & Provincial Bldg. Scty. 5⅞% Nts. 1994 Y53750.0
St. Modwen Props. 0.6p
Serco 2.9p
Woolwich Bldg. Scty. Flg. Rate Nts. 1996 ECU252.19
Yasuda Tst. Asia Pacific Flg/Fxd. Rate Gtd. Bd. 2002 $2117.01

■ **FRIDAY APRIL 23**
Alex Corp. $0.04
Beatrix Mines R0.35
Beradin Hldgs. 1.1p
Canon Flg. Rate Nts. 1996 Y9656.0
Christiania Bank Flg. Rate Sb. Nts. Oct.1997 $195.90
Close Brothers 3.3p
CPC Int. $0.32
Kleinwort Overseas Inv 1.8p
Leumi Int. Invs. Gtd. Flg. Rate Nts. 1998 $97.95
Lincat 2p
Marubeni Int. Fin. 5.4% Ser.B Bd. 1997 Y6400000.0
Metal Bulletin 5.3p
Murray Inc. Tst. 2.25p
NatWest Gtd. Flg. Rate Cap. Nts. 2005 $188.42
Padang Senang 1.2p
Reina 2p
USDC Inv. Tst. 3.25p
Walker (Thomas) 0.18p
YTB Fin. (Aruba) Gtd. Sb. Flg. Rate Nts. 2003 $326.15

■ **SUNDAY APRIL 25**
Conversion 9½% 2004 £4.75
Manchester (City of) 11.5% Rd. 2007 £5.75
TSB Gilt Fd. Ptpg. Rd. Pf. (Class B) 0.75p

WORLD STOCK MARKETS

CANADA

TORONTO

4 pm close April 16

Quotations in cents unless marked $

Sales	Stock	High	Low	Close	Chng
1000	Celanese	$44¾	44¾	44¾	
200	CntCpital	27	27	27	+2
158300	Cineplx Odn	214	203	210	+6
100	Cntrl Fd A	$5⅛	5⅛	5⅛	
24600	Cominco	$16⅝	16¼	16½	+⅛
50900	Copulalog	185	180	182	+2
16000	Corel Sys	$18¾	18½	18¾	+⅛
3000	CoscanDev	160	155	160	
42800	CrownX A	310	300	305	-5
23600	Lafarge	$20¼	20	20¼	-⅛
1800	Laidlaw A	$10⅛	10	10⅛	
233500	Laidlaw B	$10⅛	10	10	-⅛
1800	Laurent Bk	$17⅞	17⅝	17⅝	-⅛
100	Laurent Gp	450	d450	490	
2000	Lawson Mar	$9	9	9	
19400	Loblaw	u$22¾	22½	22¾	+¼
113700	Mackenzie	u$7½	7¼	7⅜	
135600	Ryl Oak Mn	470	455	460	+5
403300	RylTrustco	38	34½	37½	
1600	StLawrCm A	$8½	8⅜	8⅜	-⅛
2057800	SceptreRs	u$12	10¾	11¾	+1
600	ScottPaper	$11⅞	11¼	11⅞	+⅛
265000	Scotts Hos	$8⅞	8¾	8¾	
507800	Seagram Co	u$36	35¼	36	+⅞
9500	Sears Can	$8	7⅞	7⅞	

MONTREAL

4 pm close April 16

Sales	Stock	High	Low	Close	Chng
125700	NatBk Can	$9½	9⅜	9⅜	
2800	Quebecor A	$19⅛	18	18⅛	+⅛
11600	Teleglobe	$16⅝	16½	16½	-⅛
26300	Univa	$7⅝	7½	7½	
24300	Videotron	$21⅞	21⅝	21⅞	+⅛

Total Sales 29,997,800 shares

INDICES

NEW YORK

DOW JONES	Apr 16	Apr 15	Apr 14	Apr 13	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3478.61	3455.52	3455.64	3444.03	3478.61 (16/4)	3241.95 (20/1)	3478.61 (16/4/93)	41.22 (2/7/32)
Home Bonds	106.94	105.61	106.43	105.66	106.94 (16/4)	103.49 (11/1)	106.94 (16/4/93)	54.99 (1/10/81)
Transport	1683.08	1673.21	1660.93	1660.52	1683.08 (16/4)	1453.84 (4/1)	1683.08 (16/4/93)	12.32 (8/7/32)
Utilities	247.63	247.56	245.99	245.81	247.68 (16/4)	217.14 (8/1)	247.68 (16/4/93)	10.50 (8/4/32)

DJ Indl. Day's High 3498.60 (3484.29) Low 3437.54 (3419.17) (Theoretical♠)
Day's High 3478.61 (3465.91) Low 3455.92 (3437.81) (Actual♠)

STANDARD AND POOR'S	Apr 16	Apr 15	Apr 14	Apr 13	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	448.94	448.40	448.66	449.23	456.33 (10/3)	429.05 (8/1)	456.33 (10/3/93)	4.40 (1/6/32)
Industrials♥	508.61	508.37	508.78	509.58	524.99 (10/3)	497.53 (18/2)	524.99 (10/3/93)	3.62 (21/6/32)
Financial	46.26	46.20	46.55	46.67	46.67 (13/4)	39.89 (8/1)	46.67 (13/4/93)	8.64 (1/10/74)
NYSE Composite	247.74	247.29	247.73	247.85	251.36 (10/3)	238.21 (8/1)	251.36 (10/3/93)	4.46 (25/4/42)
Amex Mkt. Value	419.92	419.42	420.52	420.51	423.43 (31/3)	395.84 (8/1)	423.43 (31/3/93)	29.31 (9/12/72)
NASDAQ Composite	666.78	670.32	673.94	673.83	708.85 (4/2)	651.40 (22/2)	708.85 (4/2/93)	54.87 (31/10/72)

	Apr 2	Mar 26	Mar 19	year ago (approx.)
Dow Industrial Div. Yield	3.04	2.98	2.95	2.85
	Apr 14	Apr 7	Mar 31	year ago (approx.)
S & P Industrial div. yield	2.52	2.55	2.48	2.57
S & P Indl. P/E ratio	26.09	25.82	26.55	20.46

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
RJR Nabisco	10,234,100	5⅞	+ ¼
Wal-Mart	6,429,600	26¾	- ⅞
Coca-Cola	5,202,100	38	- 1⅝
Pepsico	5,047,700	37	- 1¼
Home Shop	4,453,650	4½	- ½
Philip Morris	4,428,400	48⅝	- ⅛
Gillette	4,332,500	49	- 5
Home Depot	4,265,300	40⅞	- 2
Merck	3,658,600	34	+ ⅞
Chrysler	2,853,400	43⅞	+ ⅞

TRADING ACTIVITY

† Volume Millions	Apr 16	Apr 15	Apr 14
New York SE	299.635	260.180	256.055
Amex	14.706	14.372	16.579
NASDAQ	(u)	246.953	243.108
NYSE			
Issues Traded	2,505	2,499	2,499
Rises	964	926	1,030
Falls	875	992	882
Unchanged	666	581	587
New Highs	153	137	186
New Lows	38	38	25

CANADA

TORONTO	Apr 16	Apr 15	Apr 14	Apr 13	1993 HIGH	1993 LOW
Metals & Minerals	2893.89	2859.17	2855.20	2866.01	2972.25 (9/2)	2743.31 (21/1)
Composite	3651.88	3634.20	3629.85	3624.84	3651.88 (16/4)	3275.80 (21/1)
MONTREAL Portfolio	1830.27	1819.81	1823.50	1818.51	1856.83 (23/3)	1720.97 (21/1)

Base values of all indices are 100 except NYSE All Common - 50; Standard and Poor's - 10; and Toronto Composite and Metals - 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ♠ The DJ Indl. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

	Apr 16	Apr 15	Apr 14	Apr 13	1993 HIGH	1993 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1703.2	1704.1	1704.4	1688.7	1704.40 (14/4)	1495.00 (13/1)
All Mining (1/1/80)	678.8	685.1	681.6	672.2	685.10 (15/4)	594.70 (13/1)
AUSTRIA						
Credit Aktien (30/12/84)	325.24	328.84	330.57	332.21	357.73 (9/2)	300.26 (14/1)
Traded Index (2/1/91)	765.46	775.27	779.86	789.19	860.17 (2/3)	712.06 (15/1)
BELGIUM						
BEL20 (1/1/91)	1254.07	1258.93	1258.84	1261.82	1269.11 (2/4)	1125.46 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	285.75	286.01	283.79	280.76	289.64 (4/2)	261.90 (4/1)
FINLAND						
HEX General (28/12/90)	1060.6	1059.3	1057.9	1050.0	1060.60 (16/4)	843.18 (22/1)
FRANCE						
CAC General (31/12/81)	536.55	541.81	541.07	537.43	547.37 (30/3)	471.24 (13/1)
CAC 40 (31/12/87)	1986.69	1988.63	2015.43	2018.09	2035.91 (30/3)	1772.21 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	661.31	662.94	658.73	659.65	675.70 (10/3)	593.92 (14/1)
Commerzbank (1/12/53)	1882.70	1887.40	1874.30	1877.70	1909.10 (10/3)	1634.20 (14/1)
DAX (30/12/87)	1678.85	1675.21	1672.44	1671.05	1717.40 (11/3)	1516.50 (13/1)
HONG KONG						
Hang Seng Bank (31/7/64)	6697.15	6732.04	6789.74	6418.21	6789.74 (14/4)	5437.80 (4/1)
IRELAND						
ISEQ Overall (4/1/88)	1591.74	1573.81	1572.51	1551.35	1591.74 (16/4)	1131.19 (13/1)
ITALY						
Banca Com. Ital. (1972)	513.26	508.32	512.31	513.01	536.72 (4/3)	446.33 (5/1)
MIB General (4/1/93)	1133.0	1124.0	1132.0	1133.0	1186.00 (2/3)	992.00 (11/1)
JAPAN						
Nikkei (16/5/49)	20297.66	20675.84	20533.38	20740.29	20740.29 (13/4)	16287.45 (25/1)
Tokyo SE (Topix) (4/1/68)	1565.10	1589.73	1592.83	1603.76	1603.76 (13/4)	1250.06 (25/1)
2nd Section (4/1/68)	2076.88	2075.67	2060.70	2042.30	2075.23 (16/4)	1651.72 (26/1)
MALAYSIA						
KLSE Composite (4/4/86)	662.02	660.73	660.60	654.28	662.02 (16/4)	614.28 (13/1)
NETHERLANDS						
CBS Tot.Rtn.Gen.(End 1983)	332.1	330.8	330.0	329.0	332.10 (16/4)	295.70 (4/1)
CBS All Shr (End 1983)	223.1	222.3	221.8	221.1	223.10 (16/4)	198.60 (13/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	783.29	785.50	781.75	788.38	793.43 (29/3)	659.93 (27/1)
PHILIPPINES						
Manila Comp (2/1/85)	1580.68	1583.25	1578.85	1564.35	1583.25 (15/4)	1270.68 (4/1)
SINGAPORE						
SES All-Singapore (2/4/75)	434.47	428.24	426.03	423.45	434.47 (16/4)	394.10 (13/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1203.0♥	1199.0	1167.0	1218.0	1279.00 (5/4)	775.00 (5/1)
JSE Industrial (28/9/78)	4367.0♥	4372.0	4340.0	4353.0	4645.00 (10/2)	4339.00 (14/4)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	706.86	716.76	704.92	720.52	720.96 (12/4)	605.93 (6/3)
SPAIN						
Madrid SE (30/12/85)	239.83	239.08	240.05	239.00	241.50 (30/3)	215.60 (4/1)
SWEDEN						
Affarsvariden Gen. (1/2/37)	1000.0	1000.4	1000.20	956.9	1039.00 (8/3)	879.10 (28/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	954.8	953.1	954.0	960.9	970.40 (1/4)	904.80 (11/1)
SBC General (1/4/87)	739.5	740.2	740.8	743.8	745.90 (2/4)	678.70 (11/1)
TAIWAN**						
Weighted Price (30/6/66)	4534.19	4695.49	4575.85	4597.65	5013.28 (7/4)	3098.43 (8/1)
THAILAND						
Bangkok SET (30/4/75)	888.96	874.55	(c)	(c)	998.44 (25/1)	849.20 (30/3)
WORLD						
M.S. Capital Intl.(1/1/70) $	553.3*	557.6	557.7	560.6	560.80 (13/4)	488.60 (13/1)
Euro Top-100 (26/6/90)	956.77	957.22	958.30	956.01	958.30 (14/4)	862.73 (13/1)

**Saturday April 10: Taiwan Weighted Price 4,688.86, Korea Comp Ex. 708.33.
♥ Subject to official recalculation. *Calculated at 15.00 GMT.

Base values of all indices are 100 except Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall and DAX - 1,000, JSE Gold - 255.7, JSE 25 Industrials - 264.3 and Australia All Ordinary and Mining - 500; (c) Closed. (u) Unavailable

TOKYO - Most Active Stocks

Friday April 16 1993

	Stocks Traded	Closing Prices	Change on day
Sumitomo Mtl Min	19.8m	960	-22
Mazda Motor	14.1m	601	+51
Nippon Steel	9.0m	390	-4
Toray Ind	8.1m	693	+9
NKK	6.6m	321	-7
Komatsu	5.4m	868	-12
Mitsui Min & Smt	5.4m	515	-17
Green Cross Corp	4.6m	1,380	+24
Nippon Yusen KK	4.6m	628	-4
Jpn Mtl & Chem	4.1m	705	+1

AUSTRIA — FRANCE — GERMANY — NETHERLANDS — SWEDEN — DENMARK — FINLAND — ITALY — NORWAY — SPAIN — SWITZERLAND — SOUTH AFRICA — JAPAN — AUSTRALIA — HONG KONG — MALAYSIA — SINGAPORE

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AUTHORISED UNIT TRUSTS

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
AIB Unit Trust Managers Limited (1000)F						
51 Belmont Rd, Uxbridge, Middx UB8 1RZ 0895 259783						
AIB Gilfund American	5	151 8	153 2	161 3	0 00	40591
AIB Grofund Equity	5	203 6	206 4	218 4	3.27	40593
AIB Grofund Euro	5	160 5	162.1	170.7	0.02	40594
AIB Grofund Exp Smaller	3	99 18	101 0	104 2	1 96	-
AIB Grofund Gilt	3	77 68	77 70	80 10	5 08	40595
AIB Grofund Japan	5	161 7	163 2	171 8	0 00	40596
AXA Equity & Law Unit Tst Mngrs (1200)H						
Equity & Law Hse, Corpn St, Coventry 0203 553231						
General Inc	5	411 6	413 4xd	439.8	2 53	40400
General Acc	5	452.2	453.8xd	482 8	2 53	40401
UK Growth Acc	6	301.2	305 3xd	324 8	2.92	41570
UK Growth Inc	6	213.5	216.2xd	230 1	2.92	40392
Higher Inc Acc	6	548 7	558.8xd	592 2	3 90	40393
Higher Inc Inc	6	330 1	337 9xd	358 5	3 90	40394
Gilts/Fxd Int Acc	5½	174.3	174 3xd	184.0	6 06	40395
Gilts/Fxd Int Inc	5½	91 37	91 37xd	96.51	6 06	40397
Nth America	6	237 5	243 1xd	258 7	0 00	40398
Far East	6	280.2	282 8xd	300 9	0.16	40399
Europe	6	214 6	216.3xd	230.2	0.90	40400
Brit Exceed	6	62 04	62 04	66.00	2 87	40402
Brit Fndmtls Acc	6	83 61	83 51xd	88.84	5.09	40403
Brit Fndmtls Inc	6	64 79	64.79xd	68 93	5 09	40404
Global Opps	6	68.83	69.58	74 03	0.00	46860
Balanced Acc	6	46.17	46 42	49 39	3.11	-
Balanced Inc	6	46 17	46 42	49 39	3 11	-
Abbey Unit Tst Mngrs (1000)H						
80 Holdenhurst Rd, Bournemouth 0345 717373						
Gilts & Fixed Int	6	130 4	130 4xd	138 2	6 98	40001
High Inc Equity	6	144 4	147 3xd	156.6	5.08	40002
Worldwide Bond	6	260 6	260 6	279 3	4 38	40003
American Growth	6	282 0	282 0	301 8	.67	40004
Asian Pacific	6	218.3	220 8	234.8	.69	40005
Assets & Earnings	6	221 1	225 5	239 8	2.34	40006
Capital Reserve Acc	0	126 4	125 4	125.5	5 22	40007
Commdty & Energy	6	67 68	67.68xd	72 38	.78	40008
1992 Enterprise	6	79 28	79 28	84 77	2.08	40597
Euro Capital Acc	6	107 6	107 6	115 0	.68	40089
Euro Capital Inc	6	101 2	101 2xd	108.2	.90	47581
General	6	187 0	200 7	213 5	2 55	40010

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (✠) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (#) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

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Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Sheppards Unit Trust Mngmt Ltd (1200)F						
1 White Hart Yard London Bridge SE1				071-407 5966		
Income	5	383 51	383 51	407 99	4 32	40813
Global Inc	5	57 01	57 01	60 65	3.19	40816
Brit Leaders	5	307 08	307 06	326 68	2.17	40814
Intl Leaders	5	182 44	182.44	194 08	0.67	40815
Singer & Friedlander UT Mgmt Ltd (1000)F						
PO Box 224 Beckenham, BR3 4TF				081-663 3003		
European Trust	6	52 66	52 78	58.18	1 23	42492
Far Eastern Tst	6	58 25	59 02	62 79	0 00	-
Smaller Cos	5	144 9	149 8	158 2	1 87	41431
Smith & Williamson Unit Tst Mgrs (1600)F						
1 Riding House St, London W1A 3AS				071-637 5377		
Societe Generale Touche Remnant (1200)F						
3 Finsbury Ave, EC2M 2PA				071-410 4029		
General Growth	5¼	96.76	96.76	103 00	2 05	41528
General Growth Acc	5¼	98.72	98 72	105 70	2.04	47438
Global Tech	5¼	108 90	108 90	117 70	0	41529
Income Growth	5¼	97 97	97.97	105 30	3 55	41530
Japan Growth	5¼	78 19	78 19	83 15	0	41532
Overseas Growth	5¼	73 92	73 92	78 76	0	41533
Special Opps	5¼	96 83	96 83	104 10	2 21	41535

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

FT MANAGED FUNDS SERVICE

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Prosperity Life Assurance Ltd
3 Sessions Hse Sq, Maidstone ME14 1XX 0622 690555

	Bid Price	Offer Price	Yield Gross	City-line
Initial Equity	161.5	170.6	-	42995
Accum Equity	246.5	260.0	-	43005
Accum Managed	261.0	275.5	-	43006
Accum Five Star	198.5	209.5	-	43011
Accum World	142.5	150.5	-	43013
Accum Emerg Mkts	225.5	238.0	-	43014
Pens Acc Equity	274.0	289.0	-	43025
Pens Acc Managed	344.0	362.5	-	43026
Pens Acc Emerg Mkts	267.5	282.0	-	43034
Pens Acc Deposit	235.5	248.5	-	43029
Pens Acc Five Star	224.0	236.5	-	43031

Providence Capitol Life Assc. Co Ltd
2 Bartley Way, Hook, Hants RG27 9XA 0256 768888

	Bid Price	Offer Price	Yield Gross	City-line
UK Equity Acc	263.9	278.4	-	43411
UK Fixed Int Acc	223.9	236.2	-	43412
Intl Equities Acc	225.8	238.2	-	43413
UK Managed Acc	192.6	203.1	-	43414
Property Acc	221.2	233.4	-	43415
Money Acc	145.8	153.8	-	43416
Special Market Acc	185.7	195.9	-	43417
Japan Equity Acc	118.2	122.6	-	45760
North American Acc	148.5	156.7	-	43419
Pacific Acc	135.7	143.2	-	43420
European Acc	121.9	128.6	-	43424
Hong Kong Acc	116.2	122.6	-	43427
Int Fixed Interest Acc	74.4	78.5	-	49406
Int Managed Acc	69.9	73.7	-	49407
HIP Managed I Acc	120.0	126.5	-	41829
HIP Managed II Acc	130.6	137.7	-	45881
Balanced Growth Acc	115.6	121.9	-	-
Building Society	100.0		4.33	-
Total Investment Bond				
UK Equity Initial		176.4	-	43429
UK Fixed Int Initial		149.9	-	43430

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

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LUXEMBOURG (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

FT MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE AND MONEY MARKETS

Awaiting M3 data

THE MARKET'S focus will be on events in Germany this week, and in particular on this Thursday's Bundesbank council meeting, *writes James Blitz.*

This week's meeting is the first for three weeks, and there was speculation brewing last week that the Bundesbank would introduce another cut in official rates.

Underlining the importance of the council is the fact that the figures for M3 monetary supply in March are also due out this week - and this data may move the Bundesbank in the direction of easing policy again.

UK clearing bank base lending rate 6 per cent from January 26, 1993

The February figure for M3 growth was some 0.1 per cent below the Bundesbank's target base, compared to an annualised target range of +4.5 per cent to +6.5 per cent.

Another low figure for M3 could give council members an excuse to cut either the Lombard or discount rates.

If the Bundesbank leaves policy unchanged, the French franc should be unaffected. The French currency is now trading as comfortably as it has at any time this year in the exchange rate mechanism.

Instead, tight German monetary policy might have a depressive effect on the Spanish peseta and the Portuguese escudo both of which have come under selling pressure recently in the ERM.

Mr Helmut Schlesinger, the Bundesbank president, did not help the cause of either the peseta or the escudo last week by saying that weak ERM currencies would have to be devalued if high interest rates failed to underpin them.

The dollar's exchange rate should also be sensitive to the Bundesbank's decision. The US currency has lost ground against the D-Mark in recent weeks because many dealers believe that the differential between short term US and German rates – which is a little below 5 percentage points – is unlikely to narrow in the near future.

£ IN NEW YORK

Apr.16	Close	Previous Close
£ Spot	1.5245-1.5255	1.5405 1.5415
1 month	0.36-0.35pm	0.37 0.36pm
3 months	1.07-1.05pm	1.08 1.04pm
12 months	3.77-3.70pm	3.62 3.52pm

Forward premiums and discounts apply to the US dollar

OTHER CURRENCIES

Apr 16	£	$
Argentina	1.5220 - 1.5245	0.9980 - 0.9990
Australia	2.1240 - 2.1260	1.3945 - 1.3955
Brazil	43697.0 - 43726.2	28653.8 - 28654.1
Finland	8.5065 - 8.5610	5.5900 - 5.6100
Greece	331.750 - 338.450	216.800 - 221.000
Hong Kong	11.7820 - 11.7985	7.7300 - 7.7310
Iran	2558.00 - 2582.00	1648.00 - 1650.00
Korea(Sth)	1218.30 - 1235.90	792.80 - 799.00

BASE LENDING RATES

	%		%		%
Adam & Company	6	Cyprus Popular Bank	6	NatWestminster	6
Allied Trust Bank	6	Duncan Lawrie	6	Nykredit Mortgage Bnk	6.5
AIB Bank	6	Equatorial Bank plc	6	●Rea Brothers	6
●Henry Ansbacher	6	Exeter Bank Limited	7	Roxburghe Bank Ltd	8
B & C Merchant Bank	13	Financial & Gen Bank	7	Royal Bk of Scotland	6
Bank of Baroda	6	●Robert Fleming & Co	6	●Smith & Williamson Secs	6
Banco Bilbao Vizcaya	6	Girobank	6	Standard Chartered	6
Bank of Cyprus	6	●Guinness Mahon	6	TSB	6
Bank of Ireland	6	Habib Bank AG Zurich	6	Unibank plc	6
Bank of India	6	●Hambros Bank	6	●United Bk of Kuwait	6
Bank of Scotland	6	Heritable & Gen Inv Bk	6	Unity Trust Bank Plc	6
Barclays Bank	6	●Hill Samuel	6	Western Trust	6
Brit Bk of Mid East	6	C. Hoare & Co	6	Whiteaway Laidlaw	6
●Brown Shipley	6	Hongkong & Shanghai	6	Yorkshire Bank	6
Cl Bank Nederland	6	Julian Hodge Bank	6		
Citibank NA	6	●Leopold Joseph & Sons	6		
City Merchants Bank	6	Lloyds Bank	6		
Clydesdale Bank	6	Meghraj Bank Ltd	6		
The Co-operative Bank	6	McDonnell Douglas Bk	6		
Coutts & Co	6	Midland Bank	6		
Credit Lyonnais	6	Mount Banking	6		

● Members of British Merchant Banking & Securities Houses Association

STOCK INDICES

	Apr 16	Apr 15	Apr 14	Apr 13	Apr 8	Apr 7	1993 High	1993 Low	Since Compilation High	Since Compilation Low
FT-SE 100	2824.4	2839.7	2842.1	2846.8	2821.8	2822.1	2957.3	2737.6	2957.3	986.9
FT-SE Mid 250	3082.8	3085.9	3092.7	3101.3	3084.3	3083.7	3154.7	2878.3	3154.7	1379.4
FT-SE-A 350	1402.0	1408.3	1409.9	1412.6	1401.2	1401.2	1457.1	1348.7	1457.1	664.5
FT-A All-Share	1386.07	1392.08	1393.49	1395.73	1384.98	1385.01	1438.22	1088.13	1438.22	61.92
FT-SE Eurotrack 100	1159.61	1156.40	1160.63	1157.54	1151.40	1144.36	1167.52	1063.02	1200.27	900.45
FT-SE Eurotrack 200	1217.23	1220.62	1223.50	1220.72	1211.28	1206.25	1232.53	1144.79	1248.79	938.62
FT Ordinary	2202.4	2205.8	2199.2	2196.3	2180.8	2182.6	2299.5	2124.7	2299.5	49.4
FT Government Secs.	96.35	96.91	97.12	97.60	97.20	97.20	98.04	93.28	127.40	49.18
FT Fixed Interest	112.78	112.86	113.01	113.02	112.95	112.88	113.83	108.67	113.83	50.53
FT Gold Mines	112.0	109.6	111.5	113.5	128.7	130.0	134.5	60.0	734.7	43.5

LONDON SHARE SERVICE

BRITISH FUNDS

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

NOTES– Gross: Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year. 'Compounded Annual Rate' Int Cr: Frequency at which interest is credited to the account.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

LONDON SHARE SERVICE

AMERICANS

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

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LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

INVESTMENT COMPANIES

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

MEDIA

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the *Stock Exchange Automated Quotation system (SEAQ).*
- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ *Interim since reduced, passed or deferred*
- ‡‡ Tax-free to non-residents on application
- ⊕ *Figures or report awaited*
- ♥ *Not officially UK listed; dealings permitted under rule 535(4)(a)*
- ♣ *Free annual/interim report available, see details below.*
- ✣ USM; not listed on Stock Exchange and company not subjected to *same degree of regulation as listed securities.*
- †† Not officially UK listed; dealings permitted under Rule 535(2)
- # *Price at time of suspension*
- ¶ *Indicated dividend after pending scrip and/or rights issue; cover relates* to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § *Forecast dividend; cover based on earnings updated by latest interim* statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v *Not subject to ACT.* z Dividend includes a special payment: Cover does not apply to special payment. E Auction basis. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1993. K Dividend based on prospectus or other official estimates for 1992-93. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1993-94. N Dividend based on prospectus or other official estimates for 1992. P Figures based on prospectus or other official estimates for 1994. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Schroders Split Income, Capital, Zero Div Prf. and Warrants & Value (Investment Trusts) and Motor World (Motors). Deletions: Leadcon (Electronics), Youghal (Textiles) and Plateau (Mines).

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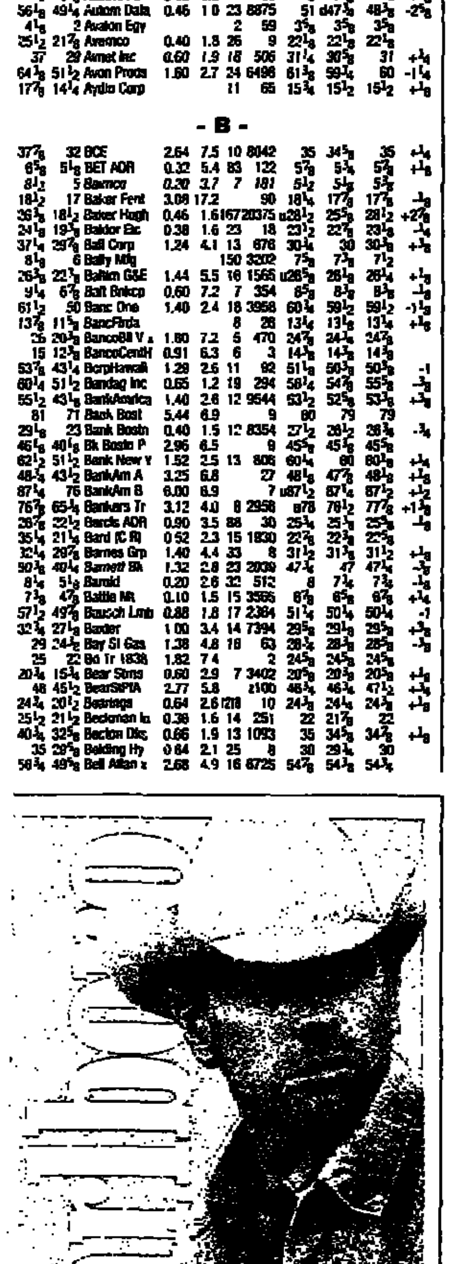
4 pm close April 16

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
13¼	11½	AAR Corp	0.48	3.7	23	109	13	12¾	12⅞	
27¼	20	A L Labs A	0.18	0.8	37	263	23¼	22¾	23	
61⅞	54⅝	AMP Inc	1.60	2.7	21	2448	60½	59¼	60	+⅛
70¼	55½	AMR			10	5636	69⅝	68⅝	68⅝	
2	1¼	ARX			11	80	1¾	d1¾	1⅞	+⅛
42½	29⅞	ASA	2.00	5.0	26	459	40	39¾	40	+⅜
30¼	22⅝	Abbott Lab x	0.68	2.7	16	10270	25⅜	25	25¼	-¼
12⅝	10¼	AbitibiPr x	0.50	4.4	3	18	11⅜	11	11⅜	+¼
11⅜	10¾	ACM Gvt In x	0.96	8.4		108	u11⅜	11¼	11⅜	+⅛
9¾	9⅛	ACM GvOpp x	0.79	8.4		35	9⅜	9¼	9⅜	
9⅝	8¾	ACM Gvt Sp	0.79	8.3		240	9½	9⅜	9½	
11⅜	10½	ACM Gvt Se	0.96	8.5		249	11¼	11⅛	11¼	
10⅞	9⅝	ACM Man x	1.08	10.0		115	10¾	10⅝	10¾	+⅛
9⅜	8⅝	ACM Mnsgd x	0.72	7.9		139	9⅛	9	9⅛	
8⅞	7¾	Acme Cleve	0.40	4.8	17	161	8½	8¼	8⅜	
9¼	6½	Acme Elect			712	58	7⅛	7	7⅛	
16	12⅛	Acuson			11	312	12⅞	12½	12⅝	-⅛
22¼	19⅝	Adams Expr	0.48	2.3	1	56	21	20⅞	21	
55	45½	Ad Micro	3.00	5.7		84	53	52¾	52¾	-½
26	17⅝	Ad Micro P	3.00	12.4	10	6318	24⅜	23¾	24⅛	-¼
7¾	5½	Advest Grp	0.16	2.2	14	104	7¼	7⅛	7⅛	-⅛
49⅜	41⅛	Aegon ADR	1.35	2.9	8	46	46⅜	46⅛	46⅜	-⅛
59¾	43½	Aetna Li	2.76	5.4	100	4568	51⅝	50⅝	51	-¾
14½	11½	AFN A	0.26	2.1	30	280	12¼	12⅛	12¼	
38⅝	33	AFlac	0.44	1.2	16	1132	38½	37⅝	37¾	-¾
22⅛	17¼	Ahmanson	0.88	4.7	15	1785	19	18½	18⅞	
7¾	4⅝	Alleon Inc			30	235	6	5½	5⅜	+⅜
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]



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4 pm close April 16

NYSE COMPOSITE PRICES

Continued from previous page

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Price data supplied by Telekurs

NASDAQ NATIONAL MARKET

4 pm close April 16

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AMEX COMPOSITE PRICES

4 pm close April 16

MONDAY INTERVIEW

Evangelist of good sense

Derek Keys, South Africa's finance minister, talks to **Patti Waldmeir** and **Philip Gawith**

Adil Bradlow

'I'm the minister of the bloody obvious'

Derek Keys, South Africa's finance minister, makes everything he says sound both simple and obvious. In the mad world created by apartheid – where concepts have been twisted and language deformed to fit the needs of an impossible ideology – that is a considerable strength. In the 11 months since becoming finance minister, Mr Keys has used it to advantage.

He has used common sense – the moral good sense of the Bible, from which he quotes liberally, and the commercial acumen developed over 30 years as one of South Africa's top businessmen – to induce sanity among the country's fractious politicians. At a time last year when they had sunk to new depths of squabbling, Mr Keys told them a few choice economic truths – that unless they moved quickly, South Africa would not be worth fighting over; it would become a wasteland of high unemployment and low growth, decaying industry and departing skills. The politicians listened, and democracy talks began in earnest. The message is reinforced, if anything, by last weekend's assassination of African National Congress leader Chris Hani.

"I'm the minister of the bloody obvious," he says. "I see myself as someone who jollies people along to do what common sense dictates they ought to do." He is someone (he does not say it) who has not only the clarity of vision to see what needs to be done but the political skill to persuade the ANC, the black trade unions, the business community and the cabinet that they saw it first themselves.

He relies on candour, confidence and his commanding presence – critics call it arrogance – to carry the day. When he speaks, people listen.

The message he delivers is a tough one: the economy must undergo radical restructuring; government consumption spending must fall sharply to boost critically low investment; civil service numbers and pay have to be cut sharply; unions must agree a virtual wage freeze; interest rates must remain high to tame inflation.

The first difficult steps have already been taken. Last month's budget raised value-added tax by 4 percentage points to 14 per cent and cut government current expenditure significantly in real terms, in an attempt to wrestle down a budget deficit equal to nearly 9 per cent of gross domestic product.

In his first budget, Mr Keys reduced the corporate tax rate from 48 to 40 per cent to boost investment – though much of it will be clawed back through a new company tax on profits distributed to shareholders and the abolition of other company tax breaks, making the effect more psychological than real.

That is scarcely surprising, for Mr Keys' campaign is overwhelmingly psychological. Put simply, he aims to persuade South Africa to believe in itself. Investors must believe in investing; bureaucrats must believe in giving the civil service their best efforts by cutting waste and inefficiency; the liberation movements must believe in the virtues of a free market; the unions must believe they have a stake in growth; and all of them must believe in Derek Keys.

So far, he can boast a surprising degree of credibility even in the most radical circles. The ANC's economic policy chief, Mr Trevor Manuel, is known to respect him, and Mr Jay Naidoo, militant general-secretary of the Congress of South African Trade Unions (Cosatu), the largest union federation, happily tolerates him, after viciously attacking his predecessor.

Mr Keys repays the compliment. He often invites Cosatu to "correct" his economic plans, and says he thinks the behaviour of organised labour in the tripartite economic negotiating body, the National Economic Forum (involving business, unions and government), has been "outstanding".

Business is delighted to have a voice in Pretoria. (Mr Keys came to the job from the post of executive chairman of Gencor, the country's second-largest mining house.)

The technocrats of the Finance Ministry seem somewhat in awe of him. Never before have they had a minister who had no desk. ("A desk is separation, assertion of authority, subservience to constraints, secretiveness.") Or a boss who throws away every report they give him. (Keys says he hates filing and so reads and discards nearly every paper put before him.)

The Keys mystique has yet to impress taxpayers, however. They have already felt the pain, and many doubt there is pleasure to follow.

Winning over the people will ultimately determine whether Mr Keys can complete the difficult economic restructuring task he has set himself, at a time of great political upheaval, and under a multiracial power-sharing government (due to be phased in from later this year) which could prove weak and divisive.

PERSONAL FILE

- **1931** Born in Johannesburg.
- **1950** B.Comm, University of the Witwatersrand, Johannesburg.
- **1954** Qualified as chartered accountant.
- **1956** Joined Industrial Development Corp, SA.
- **1965-86** Worked as management consultant.
- **1986-91** Named executive chairman, Gencor.
- **Jan 1992** Appointed minister of trade and industry and economic co-ordination.
- **May 1992** Minister of finance and trade and industry.

"Government is in a typically feminine role," he says, sheepishly acknowledging that some might find the comment sexist. It is "trying to create a situation attractive enough to stimulate some initiative from another party (the private investor). Once you commit yourself to relying on the private sector because only it can produce the investment directions with adequate yields, then you put yourself in this situation. How can I be more attractive? That's the heart of the problem."

Investors, both domestic and foreign, must start investing, growth must resume (after four years of recession), jobless totals must drop (some 40 per cent of the labour force is without a formal job) or the Keys structural adjustment programme is dead.

"The guide has to have some credibility," the minister volunteers. "I've been in this job nearly a year and I don't have anything to show. If I'm in this job for another year with nothing to show, what are the grounds for confidence?"

His basis for optimism is, oddly for a businessman and government minister, partly religious. Mr Keys consults the Living Light, a publication which provides daily lessons from scripture, every night before retiring and upon rising every morning. He acts according to its guidelines.

That, he says, is his recipe for health. "When I was at Gencor I had to go for the annual check-up and the doctor said to me: 'I'm impressed. How are you handling this stress so well?' I said: 'It's my daily exercises.' He said: 'Oh, what do you do?' I said: 'On my knees, twice a day.'."

His faith in Mr F W de Klerk is also unshakeable. He describes the South African president as "a political genius".

But his confidence in the entrepreneurial skills of the South African businessman, white or black, is less strong. "You once became an industrialist [in the highly protected South African economy] by taking an existing stream of products that came into the country, stopping it and replacing it with a stream of your own. That doesn't require an enormous amount of marketing sense," he says. But the export-oriented growth areas "that we now have to benefit from are totally dependent on marketing sensitivity," he points out.

"There are also community attitude problems. Who wants to be rich in a community where wealth is a stigma," he asks, noting that both the Calvinist ethic of the Afrikaner and the communal ethic of Africans act against the pursuit of wealth.

So how will South Africa prosper, in an atmosphere of low labour productivity, social strain and potential economic conflict? "The question is not, can these people be like the Japanese," he says somewhat irritably, "but can they improve? And they can improve, and they are *here* and so are *we*, so I think if I were to approach my job on the basis that I had to produce Korea in three years, of course I'd be on the wrong tack. But you say you have to produce something noticeably better in three years, then we're away."

In the end, Mr Keys says, it's all "a function of hope and faith ... You don't stay in this business unless you believe in God".

Revolutionary talk in Wisconsin

MICHAEL PROWSE on AMERICA

At a 1939 trade fair, a New York Times reporter dismissed the likely impact of television, arguing that the average American family was too busy to sit glued to a flickering screen. It was not an unusually poor judgment: myopia is the occupational hazard of journalism which lives so completely in the present that it is rarely able to comprehend the forces that are shaping the future.

Trying to avoid this trap, I flew to chilly Wisconsin last week to attend a conference on 21st-century infrastructure sponsored by the Diebold Institute, a thinktank run by Mr John Diebold, a US management expert. Appropriately enough it was held at Wingspread, a futuristic-looking house built half a century ago by Frank Lloyd Wright, the American architect. The building seemed to serve as a metaphor for the topic: the narrow, low-ceiled wings representing particular aspects of information technology and the soaring central dome the uplifting vision of "information superhighways" articulated by Mr Al Gore, the vice president.

Forty years ago, Mr Diebold coined the word "automation". He now believes a new word, "infostructure", is needed as a shorthand for the diverse bits of hardware and software that will comprise tomorrow's information-based infrastructure. Although keen on free enterprise, he is convinced that in this sphere co-operation between the public and private sectors is unavoidable: US and European experts were assembled at Wingspread to help set an agenda for action.

Everybody came away with fresh insights. Americans discovered that the US is lagging in some fields. The Netherlands, for example, is far ahead in computerising medical records. Leading German companies, meanwhile, are on the verge of introducing electronic traffic management systems, using in-vehicle navigational aids linked to a central computer. US entrepreneurs, by contrast, are lamely awaiting a lead from public agencies.

Europeans, on the other hand, were pleasantly surprised by what they saw as a "cultural shift" following President Clinton's election victory. None of the US participants seemed remotely interested in the dogmatic free-market ideology of the Reagan/Bush years. The issue was not whether government should be involved in infostructure, but how and to what extent.

Special interest groups – such as computer companies – are doubtless talking up information superhighways in the hope of winning big public subsidies. Yet modern society probably is on the edge of an industrial upheaval comparable with railways or electricity. In the next decade or so, the White House expects every US business, government department, library, school and home to be plugged into a high-speed, interactive communications network. With high-capacity, fibre-optic cabling, a single terminal would serve as a conduit for information of every description – words, music, colour images, medical information, manufacturing blueprints and much more.

It is hard to exaggerate the impact of such a two-way universal network. Much existing technology would be redundant, including separate televisions, telephones, faxes and computers. Familiar services would probably vanish; with everybody electronically connected, physical delivery of mail and newspapers would become prohibitively expensive. Many of us would "telecommute" from home rather than travel to a distant office, and do much of our shopping and banking electronically.

Equally far-reaching change is likely in social services such as education and medical care. With children (and adults) able to communicate electronically with teachers and libraries from home terminals, individualised home-based learning might eventually replace much conventional schooling. People might also increasingly rely on "tele-medicine": the first reaction to illness would be to seek advice from an electronic medical databank; this could be followed, if necessary, with a video-conference with a physician, to whom one could instantly transmit one's medical record.

At Wingspread there was general agreement that government has to be heavily involved in this industrial and social transformation. The presence of "free riders" (the fact that no single company or industry can capture all the profits from information superhighways) justifies public subsidies for research and development of the underlying hardware and for pilot projects illustrating potential benefits in fields such as education, transport and healthcare. The public sector should also provide a "demand pull" by subsidising the costs of connecting various bodies into a national information grid. The scale of subsidies is debatable although nobody blinked at the $1bn-plus (£600m) a year proposed by the Clinton administration.

Subsidies are the easy part. The more difficult long-run challenge is to establish a regulatory framework that encourages maximum competition between potential providers of information services, while strengthening existing privacy and freedom of information laws. At present the development of markets worth a big chunk of US national income is hampered by anachronistic laws, such as those that prevent local telephone companies challenging cable TV monopolies. It is this regulatory tangle, as much as lack of capital, that is cramping the development of Mr Gore's information superhighways and the marvels that will flow from them.

The limits of voting reform

IAN DAVIDSON on EUROPE

The eight referendums now under way in Italy, and the four scheduled for next Sunday in Russia, are two very strange events, but they have one thing in common: they are both taking place because the national system of government is in crisis. Needless to say, these referendums cannot repair the old system nor provide a new one. But with luck the voters may provide some general sense of their preferences for the way ahead.

In Russia, even this modest hope may prove to be out of reach, so deep is the disarray of the political system. President Yeltsin is hoping to reassert his authority by asking the voters to declare their "trust" in him. But it is not clear what this question really means; even if the answer should be "Yes" by a large margin, this may not be enough to end the paralysing stalemate between the president and the parliament.

The Italian referendums should have better prospects because Italy's problems are much less serious. The political parties and their leaders are horrendously corrupt; but the system itself is still essentially democratic, and the machinery of the state is a long way from total breakdown. Italy's magistrates have taken the first vital step in exposing the filth in the Augean Stables; today Italy's voters will show whether they support a far-reaching clean-up.

The principal indicator will be the verdict on electoral reform. The question is disconcertingly modest: do the voters want to change the way the Senate is elected, from proportional representation to a large dose of majority voting?

On the face of it, this seems disarmingly irrelevant, in relation to the political crisis, since real political power is held by the lower chamber, not the Senate.

But the political symbolism will be clear to all: a vote against proportional representation will be a vote against the whole of the machinery which fostered the system of *partitocrazia* and all-pervasive corruption. And the political establishment could not then avoid a parallel reform in the voting system for the lower house as well. The question is: what kind of voting system would bring the most beneficial reform?

At this point your liberal pluralist might seek to dissuade the Italians from leaping from an Italian frying pan into a British fire. He would point out that while Britain has had many decades of so-called strong government, it has had almost no good government in living memory; the present phase exemplifies the worst of all worlds.

Yet this is not the place to rehearse again the arguments on the theoretical merits of different voting systems. On the contrary, any given voting system is less important than the larger political equation; if radical political reform is possible in Italy, it will not be determined solely or even mainly by detailed voting rules.

Look, for example, at the French voting system, which is apparently among those under discussion in Italy. For 25 years it has worked rather well, with extended periods of stable government, with reasonable majorities, and with alternations between left and right. But in last month's elections the system blew a fuse, with a result which is so unbalanced, even by British standards, that it may well contain the seeds of dangerous instability.

In the first round of voting, the conservatives got 39 per cent of the valid votes cast, or 25 per cent of the electorate; but in the second round, after elimination of the also-rans, they ended up with 78 per cent of the seats. This must be an alarming result, even for the conservatives.

In principle they should rejoice at the decimation of the Socialist Party; in practice, they know their real support in the country is less than in 1981, when it was the Socialists who won a landslide.

Moreover, they must be disturbed by one indicator of popular anger: the number of spoiled ballot papers, which in most past elections has tended to fluctuate between 300,000 and 600,000, but which soared last month to a record 2.1m.

Mr Edouard Balladur, the very moderate new prime minister, has refused to promise economic miracles, or even a change in the Socialists' conservative economic policy. But an unreasonable majority will set up unreasonable expectations, and the first expectation must be that this government will bring faster growth and lower unemployment.

Unless policy changes, however, the chances are that unemployment will continue to rise. With such a large majority to satisfy, and with presidential elections looming two years from now, there must be a real prospect that the populist tail will wag the conservative dog, if not in parliament then on the streets.

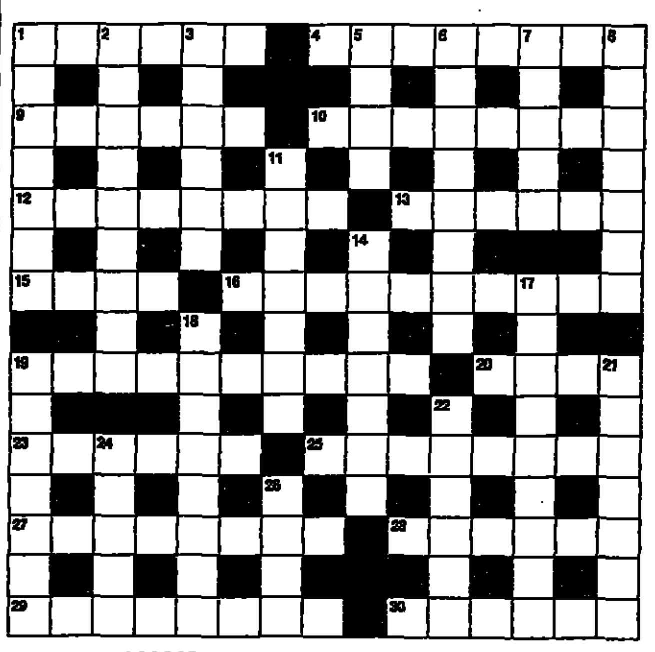
As it is, the government's programme is already a mongrel mixture of moderate conservatism and raw populism. The moderates get monetary stability, fiscal rigour and European integration; the populists get threats of protectionism in agriculture and other trade, and a law-and-order campaign against drugs, delinquents and illegal immigrants which has already resulted in several police shootings. This could be an explosive mixture.

What makes it explosive, however, is popular alienation from a traditional political establishment which has failed to deliver France from the pain of restructuring and unemployment.

This alienation shows up in protest votes, protest abstention, protest spoiled ballot papers, and the desertion of the Socialist Party. Mr Balladur is sitting on a crisis which is just waiting to explode; but this cannot be blamed on a majority voting system which is unrepresentative.

CROSSWORD

No.8,129 Set by DANTE



ACROSS

1 Gate catch, perhaps (6)
4 Couple hired to make jewellery (8)
9 It's a necessity to want to exist (4,2)
10 Transport is included in display (8)
12 Slow draw? (8)
13 A result of some consequence (6)
15 Working group go north of the border (4)
16 Is one thrown in car dispute, unsettled? (7-3)
19 Declined to keep awake? (7,3)
20 Stake for backing a mount (4)
23 Rank is all one has (6)
25 Break his model into pieces (8)
27 Its aim is to produce winners of course (4,4)
28 Nice cake, for example? (6)
29 Taking offence (8)
30 Barker is a fool to back the outsider (6)

DOWN

1 Breathalyser? It's a bore (7)
2 Notable increase in volume (9)
3 The Spanish weapons involved in the movement of arms (6)
5 Buck up at the back (4)
6 Housewarming arranged for Alice (4,4)
7 I have knowledge about France's largest river (5)
8 Where he may be involved in a diverting treat (7)
11 Reasons for sediment (7)
14 Strengthen dispute in Japanese currency (7)
17 Destitute writer on a African river steamer (9)
18 Files put in the wrong order with malicious intent (8)
19 Gets ready to eat, or to be eaten (7)
21 Drain a pipe (7)
22 Uplifting numbers at a musical performance (6)
24 Armistice for brief uprising over the east (6)
26 Smile at the end of a Wagnerian opera (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday May 1.

هكذا من الأصل

FINANCIAL TIMES SURVEY

BUSINESS AIR TRAVEL

SECTION III

Monday April 19 1993

The airlines and their corporate clients both believe that the business travel budget will be spent more carefully in the 1990s than in the high-spending 1980s. They must either push for cheaper seats or implement a more radical change. **Daniel Green** reports

A time for fresh ideas

Asia, as one of the most promising growth markets for the international airline industry, has attracted a host of airlines from east and west. Report: Page 2 Picture: Glyn Genin

THE recession has splintered the conformist world of business air travel. It has drained first-class and business-class cabins of serious fare-payers and filled the seats with frequent flyer upgrades. Deprived of high-paying passengers, the airline industry is losing money fast – $10bn in the past three years.

At the same time, the tide of aviation deregulation has divided airline executives over which strategy to adopt in order to return their business to profit. Should they follow accepted wisdom learned during decades of growth before the recession? Or has the world changed, demanding fresh thinking?

The debate is yet to be resolved, but at stake is a large chunk of more than $150bn a year spent by Europe's businesses on travel and entertainment.

Among the airlines, the protagonists fall into three camps.

There are the traditionalists such as British Airways, American Airlines and Swissair. They continue to raise standards, even though this means maintaining high prices and perhaps frightening off cash-strapped customers.

The logic is simple. Regular surveys of business passengers' preferences by the International Air Transport Association (Iata) show that seat size is the top priority. This year's survey, just published, says that more than 88 per cent of travellers in business and first class rated the size of their seat as their "preferred aspect of business-class travel". They ranked physical discomfort as by far the worst aspect of long-haul travel.

Knowing what their customers wanted, airlines have charged an ever-widening premium for the privilege of space. Even after two years of recession, a first-class return between London and New York on British Airways costs £3,870; business class costs about £2,100. By contrast, the Apex economy fare is £399 and in this spring's price war a ticket can be had for £259.

Even on short-haul routes, some airlines consider they can sell higher-price tickets on the basis of providing more leg-room. Swissair is building separate business-class cabins for short-haul services and charging appropriately for the privilege of sitting there. On most short-haul flights, business-class passengers sit in the same size of seats as economy-class passengers. Their ticket buys a faster check-in, bigger baggage allowance and slightly better food.

The traditional airlines strive to maintain their premium prices for heavily-advertised products. But they are occasionally forced to follow the moves of the second group of airlines, the old-style entrepreneurs such as British Midland and KLM, the Dutch carrier. Old-style entrepreneurs want to sell on price competition, even though this puts at risk the perceived quality of their product and hurts revenues per seat. It is a high-risk strategy, however.

Several old-style entrepreneurs have in the past few weeks launched products aimed at the budget-conscious business traveller. On short-haul routes in Europe, for example, British Midland, in which Scandinavian Airline System (SAS) has a 40 per cent stake, cut many of its fares. It was followed rapidly by KLM, the Dutch flag carrier, Aer Lingus, the Irish state airline and Air France, normally one of the traditionalists. Finally, this month BA cut its fares to match its rivals.

These cuts come on top of the general price lowering effect of old-style entrepreneurs. On London-Frankfurt routes there are just two traditionalists flying, BA and Lufthansa, and both charge more than £350 for a standard business-class return. The return business-class fare for the slightly shorter London-Amsterdam route, on which four airlines including British Midland an KLM compete, is £218.

Long-haul has seen price cuts, too. Singapore Airlines and Qantas have been battling it out on routes between Europe and south-east Asia. The price of a London to Singapore business-class return ticket fell this winter from £2,200 to about £1,500.

Finally, the third group of airlines is the radical entrepreneurs such as UK carrier Virgin Atlantic Airways and Continental of the US. In the battle against the high-investing big guns, they are prepared to abolish the traditional class structure of aircraft and try to sell something entirely new. These two carriers offer, for example, a combination of a first class-size seats and business-class levels of service.

The strategy is not wholly new. Since 1984, Virgin has been selling its Upper Class with first class-style sleeper seats at business-class prices. Upper Class does not offer many of the luxuries, such as second helpings of caviar or Krug champagne found on other carriers. Nevertheless, it has been successful enough for Virgin to launch its Mid-Class service last summer with business class-sized seats selling at the price of a standard economy fare.

But Virgin is a relatively small airline. Rivals did not feel a need to match it, until now. In January 1993, Continental, the US carrier which is operating under the protection of Chapter 11 of the US bankruptcy laws, launched Business First. The strategy, like Virgin's, was to abandon first-class fares. Continental's business-class fare-payers now get first class-style sleeper seats and a crew-to-passenger ratio of 1:6, compared with a typical 1:10 ratio on most north Atlantic business-class routes.

Why are there such diverse responses among the airlines to a simple fall in demand?

One reason is that the phenomenon is new. Every year since the Second World War until 1991, global air traffic grew. With the growth came a culture of discounting to attract economy-class passengers and luxury at a price for business and first class. As Air France puts it: "the people at the front of the plane paid for those at the back."

As the flow of profits from the front has dried up, many big-name airlines found it hard to run economy class for profit. Their losses have been embarrassingly high, compared with the performance of some budget carriers that have always run economy for profit. Two airlines that caught the envious attention of their big brethren by making money from cheap seats are Dallas-based Southwest Airlines and Corse Air in France.

Even the most traditional of airlines now admits that it may eventually have to turn to radical solutions. They acknowledge that the high profit margin, super-luxury product they have been offering may no longer be appropriate.

"Some airlines may follow Continental [and drop first class]. Some seem to be holding on for recovery but nevertheless concede that there is a chance they will reduce the number of first class seats," says Mr David Coltman, vice-president of US carrier United Airlines' Atlantic division.

Some airlines want to keep a top price product but are repackaging luxury as something more businesslike. Air France is one: "In the past we have marketed Concorde as lavish and unobtainable. We now want to market it as a business tool, perhaps as a westbound flight combined with an overnight return in first class," says the airline.

Air France's desire to make Concorde more accessible is clear in its fare structure: its Concorde return trip from Paris to New York costs little more than a first-class ticket – and is about £2,000 cheaper than BA's Concorde flight from London.

A solution which can be more widely adopted is the running of classes as separate profit centres. If this were to happen, the subsidy that business-class passengers effectively paid to economy passengers should shrink. Instead of lifestyle marketing, they could be on the receiving end of more discounting and special offers.

Some travel agents are already preparing for such changes. Thomas Cook, for example, this month launches itself as a cost-cutting agent for companies. It will charge a fee based on the savings it makes for companies rather than as a percentage commission on the price of the ticket from the airline.

The airlines recognise this heightened cash consciousness among their business customers. "Companies are now having to take a more disciplined approach to spending," says Mr Chris Gilbert, UK sales manager of American Airlines.

Both the airlines and their corporate clients believe that the business travel budget will be spent more carefully in the 1990s than in the high-spending 1980s. They must choose whether to push for cheaper seats to cut industry's costs, or to implement a more radical change away from air travel as a luxurious experience to its use as part of a business, more like the car or the computer.

ON OTHER PAGES

Editorial production: Phil Sanders

■ WESTERN EUROPE

New competitive forces at work

The liberalisation of the European air transport market, coupled with the continuing impact of the general economic slowdown, has had significant repercussions on Europe's airline industry this year.

The deregulation of air fares on January 1 has already sparked a price war in Europe. Lufthansa of Germany was the first to take advantage of the new liberal regime in Europe, cutting fares from Germany and the UK. It has been followed by other airlines which have also extended the cuts to business class in an effort to attract higher-yielding customers.

British Midland, the second-tier UK carrier, introduced a new business fares policy with price cuts of 30 per cent on its routes from London to other European cities. Price cuts followed at KLM Royal Dutch Airlines and Aer Lingus.

Sabena of Belgium launched a season ticket for regular business travellers on its services from the UK to Brussels while Swissair last month inaugurated its new business class cabin with bigger and more comfortable seats. Air France is offering reductions on its European business class while British Airways is promoting its new European services from London's Gatwick airport following its acquisition of Dan-Air last year.

As Sir Michael Bishop, the chairman of British Midland, recently put it: "Battle has at last been joined on Europe's busiest air routes".

Under the EC's third and most radical phase of liberalisation of European air travel, airlines are now free to set their fares according to their own commercial judgment rather than by regulators. Although there are still some transitional restrictions for cabotage or services operated by an airline from one country in a different state, EC-licenced carriers are free to fly on virtually any route in the Community.

"With the introduction of the third package, I believe what has happened is nothing short of a revolution, albeit a relatively peaceful one," says Mr John MacGregor, the UK transport secretary. Until the advent of liberalisation, Mr MacGregor says European air services had been carved up between national flag carriers and competition was "simply not on the agenda".

But in introducing more competition in Europe, the EC has been anxious to avoid the experience of 12 years of deregulation in the US which has seen the industry consolidated around a handful of large carriers. "In our efforts to free up the market, larger airlines must not be allowed to abuse their privileged position and the interests of smaller airlines must be safeguarded," insists Mr MacGregor.

The UK is particularly concerned that the new single EC aviation market will be distorted by governments continuing to support financially their respective national flag carriers. "Cash injections made to state-owned airlines on terms not available in the private sector risk placing private sector airlines at a distinct competitive disadvantage," Mr MacGregor argues. The UK also believes the existing EC guidelines to evaluate state aid to airlines are outdated and need to be reinforced.

British Midland introduced a new business fares policy with 30 per cent price cuts on routes from London to other European cities

Another significant problem threatening to undermine competition is the question of providing smaller airlines and new entrants with adequate access at busy airports. This issue has become acute because European air travel continues to be plagued by congestion both in the sky and on the ground at some large airports such as London Heathrow or Frankfurt.

One solution to these problems is the modernisation and harmonisation of Europe's inadequate air traffic control systems as well as the construction of new airport terminals and runways. But efforts to improve air traffic control and provide more ground infrastructure have been handicapped by frustratingly long lead times.

The construction of a fifth terminal at Heathrow, for example, is expected to take at least 10 years from the planning application, which was filed this year, to completion. In the meantime, new airlines are scrambling to gain take-off and landing slots at Heathrow while the established carriers at the airport are jealously guarding their positions.

The EC has introduced fresh regulations to ensure that new entrants are given the opportunity to operate services out of congested airports. The system is based on giving them priority on new slots when these become available. However, smaller airlines have continued to complain that access at busy airports will remain a problem so long as established carriers through their so-called "grandfather rights" are entitled to claim automatically the same slots from one season to another.

"Aviation's most common competition killer is historical precedence," says Mr Richard Branson, chairman of Virgin Atlantic. "The rule makers ensure their own failure by continuing to tolerate the allocation of scarce resources on the basis of who had them first: that guarantees that nothing can change," he says. Mr Branson, whose airline has specialised on long-haul services, says he would be interested in operating short-haul European services if he could secure the necessary, competitive slots at Heathrow.

The new competitive forces now at work in the European airline industry are putting increasing pressure on smaller airlines and accelerating the growing trend of consolidation in the industry.

The big European carriers have already been positioning themselves in what they regard is rapidly becoming a global airline market by acquiring stakes and forging alliances and partnerships with other international carriers. BA has bought minority stakes in USAir and Qantas as well as stakes in small European airlines to strengthen its presence in the EC market. Apart from absorbing Air Inter, the domestic French carrier, and UTA, the French independent long-haul carrier, Air France has acquired stakes in Sabena of Belgium and CSA of Czechoslovakia.

Scandinavian Airlines System, KLM Royal Dutch Airlines, Swissair and Austrian Airlines are in the throes of partnership negotiations which could eventually lead to a merger to form a "fourth force" in Europe to compete against BA, Air France and Lufthansa of Germany, Europe's big three airlines. Meanwhile, Alitalia has acquired a stake in Malev, the Hungarian carrier, while Iberia is building up its links with Latin American carriers.

Smaller carriers continue to see opportunities to operate in niche markets alongside the big airlines. But they are increasingly likely to be pushed into partnership with one of the bigger groups to survive in the longer term. Despite all the EC's efforts to encourage the development of smaller airlines and new entrants, Mr Jan Carlzon, the chief executive of SAS, believes that by the end of the decade the European industry will be dominated by four or five large groups of airlines.

Paul Betts

■ EAST ASIA

Market expected to grow 6%

ASIA, as one of the most promising growth markets for the international airline industry, has attracted a host of airlines from east and west, all vying to claim their share of the pie.

While other markets for air travel have been depressed amid slow economic activity in leading industrialised countries, the Asian market is expected to grow by about 6 per cent, according to some industry estimates.

Air travel in the Asia Pacific region will grow to 40 per cent of international air traffic by the end of the century, compared with 31 per cent today, Singapore Airlines reportedly forecasts.

Against this background, airlines are competing to expand their share of market demand while several countries are stepping up investment in airports to ensure that a proportion of the greater flow of air traffic comes their way.

Japan Air Lines, for example, is increasing flights to China, a predominantly business market which it expects to be the largest growth area in the region. The Japanese airline is also looking to the resumption of air travel between Japan and Vietnam for the first time since the Vietnam War. The two countries are in negotiations to discuss specific routes, JAL says.

The Japanese government also announced recently that it would hold civil aviation talks with Brunei with a view to starting a regular air route.

At the same time, there is increasing traffic between regional cities in Japan and other parts of Asia. JAL expects to see more flights to south-east Asia from regional cities such as Kagoshima and Fukuoka on the southern island of Kyushu.

Meanwhile, Japan, Hong Kong, Taiwan and Korea are busy building new airports to meet the challenge of what is expected to be growing competition for business and tourism air travel in the region.

With a number of competing facilities coming on stream later in the decade, Japanese airlines are worried that unless timely progress is made in the extension of Narita Airport and the construction of the New Kansai International Airport, Japan's share of traffic in the region could be diverted to Korea.

Narita : Japanese airlines are concerned about its extension *Picture: Glyn Genin*

The competition is all the more intense because lower corporate profits have meant a decline in more profitable first-class and business travel.

At JAL, the overall volume of traffic has increased but yields have fallen as a result of business travellers switching to economy class. Last year, the carrier saw business travel fall by 16 per cent while first-class travel fell by 18 per cent.

However, while undue competition and excess capacity are real dangers, the most tangled issue facing the airline business in Asia today is that of "beyond rights" claimed by the US. The issue of beyond rights stems from bilateral air agreements formed between the US and individual countries in Asia several decades ago.

Under those accords, a certain number of US airlines are granted the right to fly to specific destinations in the countries concerned and from there to a third destination.

A number of Asian countries, including Japan, contest that the US is abusing its beyond rights by taking traffic away from local carriers which should have first priority over routes connecting their home market to foreign destinations.

Thailand, for example, abrogated its bilateral aviation accord with the US in 1990 while the US and Hong Kong have also been in disagreement over beyond rights.

Japan has warned the US that it cannot accept the use of beyond rights in a way which threatens the business of the carriers of the countries concerned.

Japan has refused to grant United Airlines permission to fly between Tokyo and Sydney on the grounds that United will be taking business away from Japanese and Australian airlines.

Although the Japanese authorities have allowed Northwest Airlines to fly a New York-Osaka-Sydney route, they have done so on condition that the number of passengers boarding at Osaka be restricted to less than 50 per cent.

The Australian government is also upset at US attempts to capture some of the market for travel between Japan and Australia, and has told Northwest that only two of its three Osaka-Sydney flights could carry passengers boarding at Osaka.

The US side takes the position that since it has been granted the right in aviation accords signed by each side to extend a US-Japan route to a third destination, it should be able to exercise that right in full. Any attempt to restrict that right is a unilateral violation of the accord, the US believes and US aviation authorities have gone as far as to threaten immediate sanctions against Japanese airlines.

However, in this particular case Japan refused to bow to US pressure. US claims to beyond rights are based on an outdated agreement which does not reflect the current reality, Japanese officials say.

What is particularly annoying to Japanese carriers is the fact that the US is flexing its muscles over beyond rights in the region at a time when US passenger traffic to south-east Asia has declined dramatically.

In 1990, for example, 5 per cent of visitors to Thailand were American compared with 41 per cent in 1965, according to the Teiki Koku Kyokai, an industry association.

Japan has so far allowed Northwest to continue flying its New York-Osaka-Sydney route in spite of the fact that about 70 per cent of passengers on the Osaka-Sydney leg board the aircraft in Osaka, supporting Japanese claims that the US airline is taking away business from Japanese and Australian airlines.

If the situation does not improve it is quite likely that Japan will withdraw Northwest's right to fly that route and tensions between the two sides could flare up.

Whatever happens, one certainty is that competition for the Asian air travel market is bound to increase as new facilities come on stream.

The opening of the Kansai International Airport in the summer of 1994 will give foreign airlines a greater number of landing slots than ever.

Seoul's Kimpo Airport, which the Koreans would like to see becoming Asia's hub, is scheduled to open in 1998 with one runway and will eventually expand to four runways.

As capacity increases, and competition sharpens, there is a danger that airlines could be drawn into a costly price war.

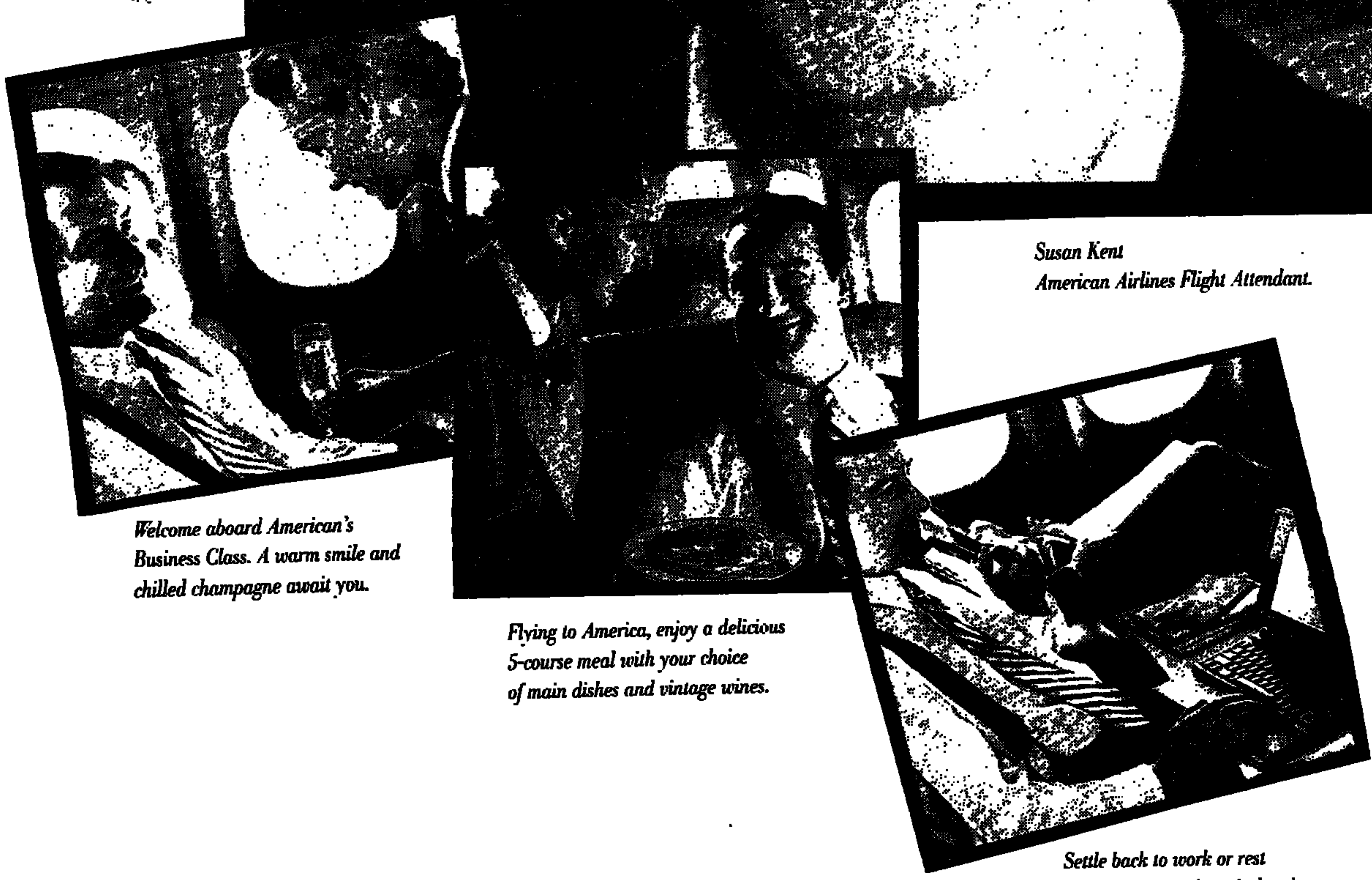
Such a scenario may be of short-term benefit to travellers but will severely undermine the health of an industry which is already seeing a growing number of casualties in the economic downturn.

Michiyo Nakamoto

هكذا من الأصل

The American Way to America.

Susan Kent
American Airlines Flight Attendant.



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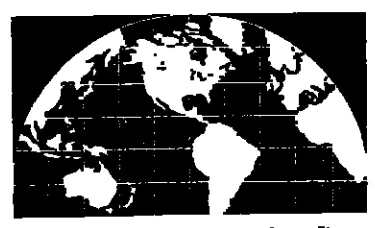

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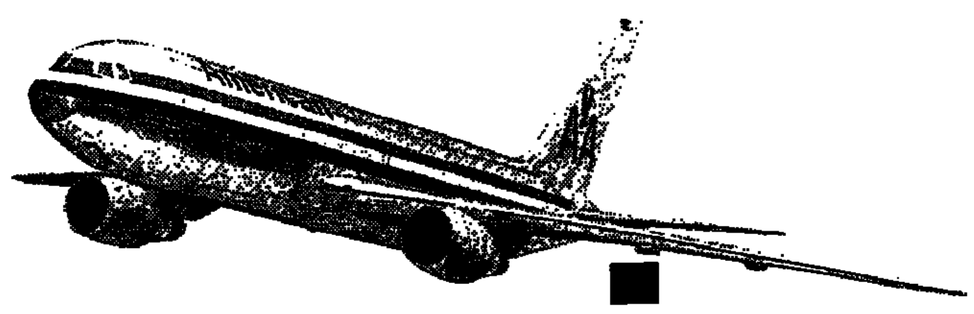

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■ THE NORTH ATLANTIC

Busiest long-haul business corridor

The north Atlantic air travel market has become like the gladiatorial contests in the Roman colosseum with protagonists prepared to slug it out in a grand setting. For the gladiators, the prize was freedom. For the airlines, it is profitability.

The north Atlantic divides the two greatest economic entities on earth. It is not surprising, therefore, that the roads of European and US commerce lead there: it is the busiest long-haul business air traffic corridor in the world.

Governments take a close interest in the rules of the game. Heavily loss-making airlines in the US and Europe are pressing their political leaders to renegotiate bilateral deals with foreign countries to improve their competitive positions. The deals are now likely to be renegotiated, setting a new framework for transatlantic air travel for the next few years.

The most important changes are in prospect on the link between the UK and north America. Britain is easily the most important gateway between the two continents, accounting for about one third of traffic. At peak times, 100 flights a day on 12 airlines link the two.

The competition is healthy enough for the passengers. But the airlines lurch from one price war to another and this spring saw them once more leapfrogging each other downwards in the price of economy class tickets.

If you had the flexibility to conform to strict timings and had a voucher given out by a large UK supermarket chain, you could buy a return ticket from London to New York for £169.

Price has also become a factor in business class and first class. By scanning newspaper small advertisements this month, you could pick up a business class return to New York for less than £1,000 on Kuwait Airlines, compared with the £2,100 officially charged by the likes of British Airways or its two main US rivals, United Airlines and American Airlines.

That level of discounting hurts, but it is more than just the slack demand and low fares that upsets the airlines. For years, the US and UK carriers have felt that the bilateral arrangements between the two countries favoured the other side's carriers. BA has said that it is at a disadvantage because it is not allowed to carry passengers beyond the first airport at which it lands in the US. Its US rivals, by contrast, have first call on anyone who wants to fly onwards within the US.

US carriers argued that BA had too strong a grip on the landing rights at Europe's most important gateway, London's Heathrow airport. Good slots mean frequent departures at convenient times, factors that are high up the list of priorities for the business traveller.

The bilateral debate came to a head in the last year when BA signed a deal to give it a large stake in USAir, a carrier which has a large domestic US network.

Although the stake did not give BA direct control of USAir, it promised to provide it with the opportunity to feed passengers into USAir's

Weber: Called on German government to cancel its air transport agreement

domestic network. The big US carriers objected to the deal on the grounds that it met BA's concerns without addressing theirs. The US government agreed and BA was forced to take a smaller stake in USAir with some aspects of the deal given only one year's approval. Mr Federico Pena, the new US transportation secretary, said he wanted to use the revised BA-USAir deal as a vehicle to rewrite the bilateral agreement.

Although talks, due to start early next month, are unlikely to reach a conclusion until next year, both governments in principle want further liberalisation. In an extreme case, this could mean abandoning the notion of airline nationality altogether. Today, UK and US airlines have about half the market each, which is the aim of existing rules. Under complete liberalisation, such targets would be dropped. Governments would not concern themselves with the market share of nations, only the market shares of airlines, to maintain a competitive market.

BA would view such a more sympathetically, perhaps because it is the most profitable airline in the western hemisphere. Its strength might help it win a greater share of the business.

But governments in the rest of Europe are unlikely to want greater liberalisation for their own links to the US. The French government has called for a renegotiation of its US bilateral to cap the US market share at 60 per cent.

Mr Jurgen Weber, chairman of Lufthansa, the German flag carrier, has called on the German government to cancel its air transport agreement with the US. He says that cancelling the aviation deal will clear the ground for a fresh, more even-handed agreement than the one which has limited German airlines' access to a dozen US destinations. These developments irk US airlines. "The majority of European carriers are being propped up [by their governments] in one way or another", says Mr David Coltman, vice-president of US carrier United Airlines' Atlantic division.

But they will have a tough fight on their hands to persuade Germany and France to allow more competition across the north Atlantic.

They may use free market arguments to suggest that business travellers in France and Germany will suffer. If the rules on flights to the US are tightened, then competition will be limited and fares could rise. By contrast, if the UK-US bilateral is further liberalised, then the competitive pressure on prices should at least be maintained.

One consequence could be that more passengers from continental Europe will consider flying to the US through the UK. This is not only to save money. Further liberalisation of the UK bilateral should bring more frequent flights to more US destinations, while European deregulation should allow more flights from more European cities to come to the UK.

The consequence of changes mooted in bilateral regulations should be that the UK will remain the foremost staging post on the north Atlantic route, and possibly the cheapest from which to fly.

Daniel Green

■ WIDE-BODIED AIRCRAFT

Manufacturers have forged ahead

Deep recession in the civil aircraft industry has not modified the longer-term expectations of the big three manufacturers – Boeing, Airbus and McDonnell Douglas – for continued growth in air travel and demand for new commercial jets.

Boeing, the world's biggest manufacturer of airliners, is now forecasting new aircraft deliveries totalling more than 12,000 jets valued at $815bn over the next 18 years. The European Airbus consortium estimates demand for 13,500 aircraft over the next 20 years, while McDonnell Douglas is forecasting a total requirement for 14,000 new jets during the same period.

All three manufacturers also expect bigger wide-body aircraft to take an increasingly large share of total deliveries over the next 10 to 20 years. In its latest study of the market, Boeing says larger aircraft will account for 58 per cent of all seats delivered between now and 2010, and that the average size of airliners will grow from 176 seats in 1980 and 193 seats in 1992 to about 227 seats by 2010.

This trend towards larger wide-body airliners is essentially driven by two factors: long-range, non-stop travel is expanding while on shorter routes big aircraft are seen as a way of beating congestion at busy airports.

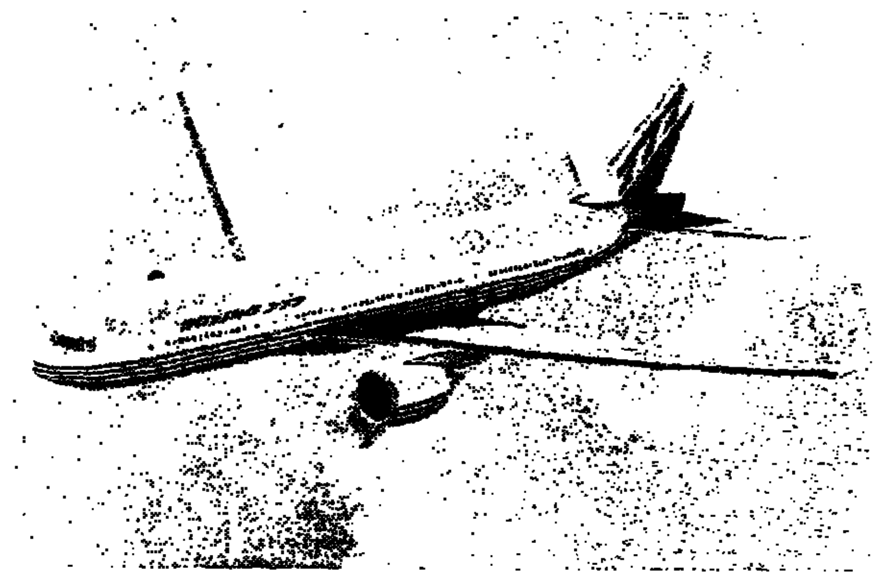
Although the turmoil in the industry has forced manufacturers to cut production following a wave of order cancellations and deferrals from financially hard-pressed airline customers, all three big manufacturers have forged ahead with development of new, large wide-bodies.

The Airbus A340 entered service with Lufthansa and Air France this year. This four-engine wide-body boasts the longest range of any civil aircraft; it is capable of flying non-stop with a full load for 16 hours or more. The aircraft, which is also extremely quiet, has been designed for very long routes such as London-Johannesburg or Paris-Singapore. Airbus will also start delivering to customers later this year the first A330s, the twin-engine sister of the A340.

Boeing, which has dominated up to now the long-haul wide-body market with its 747 jumbo, is in advanced development of the 777, a new family of twin-engine wide-body airliners with versions for medium-range flights and others for long routes.

McDonnell Douglas is competing against both Boeing and Airbus in this market with its MD11 three-engine jet. It has plans to stretch this and also develop a new, bigger, four-engine jumbo, the MD12. However, these plans hinge on the Long Beach, California, group being able to complete the restructuring of its commercial aircraft activities and find new international partners to invest in these operations and help fund the costly and risky development of a new large aircraft.

The Russian aircraft industry, long present in the very large jet segment of the market, is also vying for a slice of the new wide-body business by attempting to forge alliances with western partners to develop



Boeing is in advanced development of the 777, a new family of twin-engine wide-body airliners

new aircraft for both the Commonwealth of Independent States as well as other world markets. The first concrete example is the new Ilyushin 96M four-engine wide-body with seating capacity for 386 passengers.

The aircraft, which will compete against the A340 and the 777, made its maiden flight at the end of March. It is the product of close co-operation between the Russian industry and US manufacturers. Ilyushin's main partners on this ambitious project are Pratt & Whitney, the US aero-engine group providing the power plant for the new aircraft, and Rockwell-Collins which is supplying the avionic equipment and systems.

But perhaps the most significant development of the past few months is an agreement between Boeing and the four Airbus partners (Aérospatiale of France, Deutsche Aerospace, British Aerospace, and Casa of Spain) to study jointly the development of an extra-large aircraft, or super-jumbo, capable of seating between 550 and 800 passengers.

This unusual collaboration between traditionally fierce competitors reflects a general feeling among manufacturers that the development of a super-jumbo, whose cost aerospace industry analysts estimate at more than $10bn, can only be viable through the broadest of international partnerships. Indeed, other manufacturers could ultimately join the Boeing venture with the Airbus partners, including McDonnell Douglas and the Russians.

The industry believes there will be demand for a super-jumbo by the turn of the century. Airbus says that the development of an ultra large-capacity aircraft is the "next big challenge" facing the commercial aerospace industry. But it also agrees with Boeing that there is unlikely to be room for more than one project.

Several airlines have already shown interest in such an aircraft, especially in the Asia-Pacific region which is expected to continue showing above-average air travel growth during the next 10 years. British Airways, which is also interested in the super-jumbo concept, has already done some studies on the configuration of a very large aircraft and the new facilities it could bring to travellers – including lounges and exercise rooms – to make long-distance flying more enjoyable.

At Long Beach, McDonnell Douglas has a mock-up of its MD12 super-jumbo concept. On the top deck, it has fitted a small gymnasium as well as a business centre where passengers could send faxes and use computer facilities while flying on very long routes.

But apart from the huge cost of building such an aircraft, the development of a new generation of super-jumbos will also require significant new airport infrastructure to accommodate these jets at airport gates. Airports will also have to adapt their facilities to cope with much greater flows of passengers disembarking or boarding such aircraft.

With congestion becoming an acute problem at a growing number of large international airports, demand for wide-body aircraft is expected to increase over the next few years. In the shorter term, this demand will be met by the new big twin-engine aircraft such as the Boeing 777 or the Airbus A330 now in advanced stages of development. In the longer term, the super-jumbo could become a familiar sight at leading airports.

Paul Betts

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■ GROUND SERVICES

Fierce battle for hearts and wallets

THE desperation of airlines to lure back the lucrative business traveller can be reflected in one simple statistic: in the past two years, carriers worldwide have managed to lose every penny of profit made since the Second World War – an estimated total of about £7bn.

It is against that background – and the knowledge that business class provides about 50 per cent of profits while taking just 20 per cent of the space – that airlines have been waging a fierce battle for the hearts and wallets of the executive traveller.

That war has so far been fought largely in the air, with airlines offering roomy sleeper seats, televisions and "haute cuisine" en route to tempt the more discerning traveller.

However, the battlefield of the 1990s is almost certain to be on the ground. Increasingly carriers are focusing on the pre- and post-flight needs of the business traveller.

Mr Colin Ellson, deputy editor of Executive Travel, the magazine which caters for business passengers, describes it as the "total journey concept". In a survey recently published by Executive Travel, airlines are judged on many factors, including how completely they have adopted the philosophy.

It would appear that many carriers are going to great lengths to take the hassles out of a business journey as early as possible. This has traditionally meant limousine or helicopter transfers from home, or between airports, with airlines such as Quantas, Cathay Pacific, Virgin Atlantic and Continental all offering at least the chauffeur option.

Such luxury is viable, however, for only the smaller airlines. It would be too expensive for the larger carriers which have more daily flights.

The larger airlines have begun to hit back with their own weapons. British Airways, for example, is investing £30m in its Airport 95 programme, in addition to a £100m investment in brands. The concept, to build customer loyalty "by creating a distinctive personal and enabling experience that is reliable, seamless and hassle-free", hangs on the conviction that passengers want a real change to their experiences on the ground.

There are plans are to relieve clients of their baggage as early as possible – at hotel and underground check-ins, for example – and deliver it to the business passenger's final destination. The carrier is also trialling a mobile check-in service carried out by attendants with portable computers, which is expected to reduce queues. BA has also introduced Time Saver, a self-service ticketing and check-in facility for those who want the quickest route through airport red tape.

BA already has a fast-track service for executive passengers at Gatwick, which gives them priority for security, immigration and customs. The airline plans to introduce this at other airports soon.

Virgin has led the field with its £1m lounge at Heathrow, opened just two months ago

The terminals have become the most important areas of competition, with millions being spent on offering business travellers facilities they never even knew they wanted.

Virgin has led the field with its £1m lounge at Heathrow, opened just two months ago. "We decided to turn the convention on its head," said a Virgin spokesman referring to the unusual nature of the lounge. The opulent facility at Terminal Three, for Virgin's Upper Class passengers, has seven different areas to cater for whatever mood they are in.

This includes a model railway bar where the train delivers the drinks, a panelled library with 5,000 books – although users would have to be speed-readers since the books may not be taken away – and a darkened games room with the latest in computer entertainment.

Other facilities include an observation deck, a soundproofed music room and a bathroom where travellers can soak to the sound of singing whales.

BA also has its own new state-of-the-art lounge facility, opened last month, at Terminal Four. The facility has been described by BA officials as more like a hotel lobby than existing airport lounges. "People can use the lounges as an extension of their travel," says Mr Dave Bevan, senior manager of BA's service delivery systems. "If they arrive early at a destination, they can now go to the lounge, shower, change and then go on, fresh for their meeting."

Many other airlines, such as United and British Midland, have invested in their own lounge facilities.

Yet the airlines are not the only ones which feel the pressure to fight for executive business. Aware that the carriers will be looking for more space for these customers, the airports have met the challenge with enthusiasm.

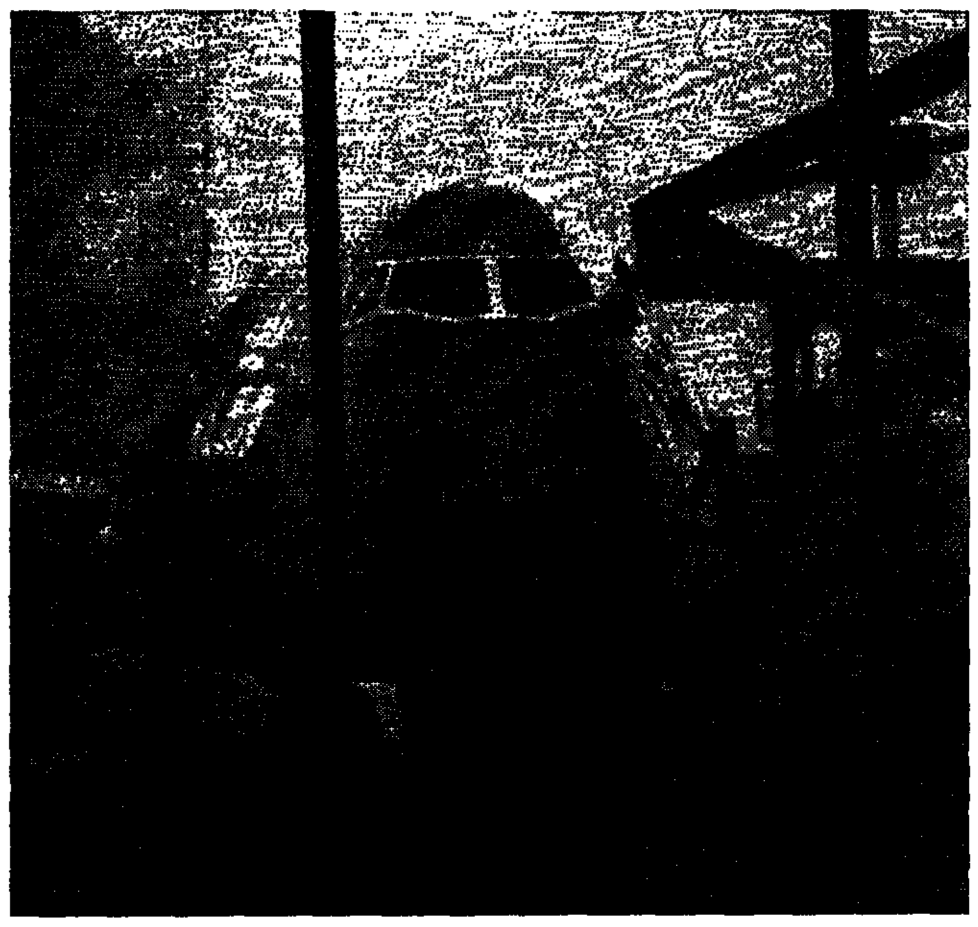
At Heathrow, for example, BAA is investing £12m in adding 90,000 sq ft of private lounge space in Terminal Three for first-class and business-class customers. Airlines intending to take up the new space include American, Cathay Pacific, Korean, Malaysia, All Nippon, Air Canada, SAS, Singapore, Thai, JAL, Kuwait, Quantas, and a range of other smaller carriers.

Gatwick is also investing £3m in facilities dedicated to the business traveller, to be completed this spring. It will include access to showers, laundry and breakfast. The lounge is being developed in conjunction with a £12m investment in Gatwick's North Terminal.

Eventually, however, the war will have to move from behind the velvet curtains of increasingly plush lounges and out into the open. Possibilities being mooted include ground-to-air communication, or even aircraft-to-aircraft, links. Virgin is already investigating options for "interacting" with services on the ground, or vice versa.

Whatever the airlines dream up next will prove of little use, however, unless companies allow their executives that extra perk of flying business class. According to a recent Mori poll, half the executives questioned had downgraded their class of air travel and more than a third were making fewer trips. Until that changes, the whales in Virgin's lounge may find they are singing to thin audiences.

Peggy Hollinger



KLM ground service: airlines are likely to focus on pre- and post-flight needs of the business traveller

■ Frequent Flyer Programmes

Conquering the world

PASSENGERS like them. Airlines do not, but embrace them anyway. Frequent Flyer Programmes (FFPs) have spread from their humble beginnings in the US to conquer the world, despite the misgivings of industry executives who thought that giving away seats might be bad for business.

Invented more than a decade ago in the US, they were designed to to create and maintain customer loyalty. The idea was for regular passengers to accumulate points which could eventually be exchanged for free flights.

The cost of an FFP to the airlines, that of filling seats that would otherwise be empty, was marginal.

Their success was staggering: American Airlines, which started its scheme in 1981, now has about 20m members.

In recent months, some of the last pockets of resistance to this marketing tidal wave have surrendered. The likes of Air France and Lot Polish Airlines have joined in, Japan Air Lines has extended its FFP to Europeans, and British Airways this month opens its scheme to residents of Australasia, the Americas and South Africa.

FFPs are now the airline industry's most tried and tested marketing tool. US members of FFPs have already earned more than 600bn miles' worth of free travel, according to one industry estimate, enough to fill more than 500,000 transatlantic Boeing 747 flights.

Yet this very success brings problems. US airline executives acknowledge that accounting standards bodies are asking whether the financial liability tied up in seats owed should be included in company accounts. "One of the big concerns is this contingent liability," concedes Mr Richard Mound, head of relationship marketing at British Airways.

Tax authorities, too, are looking at the value of the giveaways for both the airlines and their customers. The power of FFPs to attract members would be hit if passengers were taxed on the value of private flights they earned through company travel.

Perhaps worst of all for the airlines is the clear risk that they will be forced to turn away fare-paying passengers to meet their obligations to travellers redeeming frequent flyer points.

Airline executives are reluctant to concede publicly this danger to their revenues. However, some have already blamed low yields – low turnover per seat – on FFP members exercising their rights to free seats.

Their concerns can be inferred from the structure of recently-launched FFPs. Lufthansa, the German carrier, is typical in stipulating a two-year time limit to control the flow of free seats.

Passengers are also being dissuaded by a variety of means from cashing in their points for free flights. "It would be highly desirable from our perspective if customers used their points to buy upgrades rather than free tickets," says Mr Chris Gilbert, UK sales manager of American Airlines.

The strategy seems to be working, according to Mr David Perkins, managing director of Carlson Marketing which operates several FFPs for airline customers. "Almost half air miles points are now being used for upgrades," he says.

Some airlines offer rewards completely unrelated to air travel. KLM, the Dutch carrier, for example, offers two-day music master classes in Vienna and cordon bleu cookery classes.

The search is also on to extract more value from the huge amount of information available from FFP databases.

While airline tickets are anonymous, FFP databases allow airlines to find out who their passengers are and what are their patterns of travel. They can then use direct mail to send sales and marketing information to particular groups of customers.

Airlines can also identify their best customers and tailor services to them. Many of British Airways' top 1,000 customers, who are estimated to spend on average £50,000 a year on air travel, now hold a BA Premier Card. This unpublicised card earmarks a group that BA consults directly about the services it offers.

Smaller airlines can in principle make equally good use of such information but suffer from having a much smaller database to play with. Cross-airline allegiances are one solution: Virgin and British Midland share an FFP in the UK, while Singapore Air Lines, Swissair and Delta of the US have linked their FFPs across their respective continents.

Cross-company links are being used by airlines big and small to extend the scope of their FFPs and with it their attractiveness to passengers. Car rental companies and hotel chains are among those to share FFPs and award schemes with airlines. Avis, for example, has agreements with 11 airlines ranging from Iberia, the Spanish national carrier, to Manx Airlines, a small UK regional carrier.

Even Asia may eventually succumb. After years of decrying the idea, Cathay and Singapore are opening up their FFPs for Asian residents on intra-Asia flights for the first time.

Airline executives are reluctant conquerors of the world with their double-edged marketing sword. Many hope that when all airlines have FFPs, their usefulness to distinguish one airline from another will diminish.

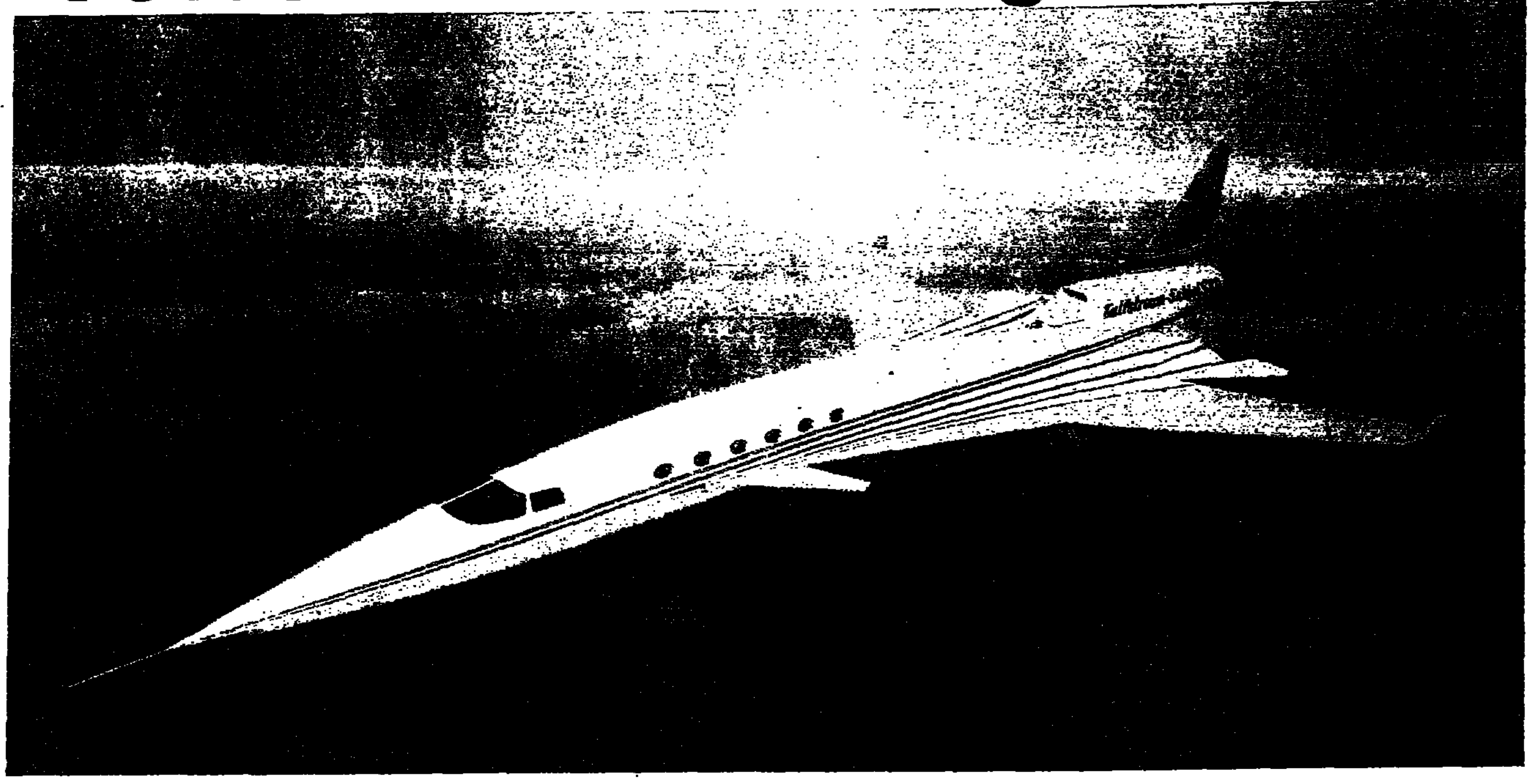
They may have the help of the tax authorities, if the frequent flyer benefits become taxable. And companies, too, may press for better deals on fares and forego their frequent flyer points.

But until then, the continuing advance of the frequent flyer programme seems inevitable.

Daniel Green

■ SUPERSONIC TRAVEL

Focus is on a second generation


There is already much interest in the the development of a second-generation supersonic airliner. Rolls-Royce is studying potential engine designs for future aircraft concepts such as this proposed supersonic executive jet

By the end of the 1990s, Concorde will have been carrying commercial passengers at supersonic speeds for almost a quarter of a century, having entered commercial service in 1976.

Normally 25 years is about the maximum life-span for an airliner, but Concorde's relatively low annual utilisation rate, compared to subsonic jets, and its intensive maintenance schedule mean it will probably be able to continue flying well into the next century.

Nevertheless, Concorde was designed in the 1960s and inevitably even its most ardent admireres are beginning to ask what comes next.

There is already much interest in the world airline and aerospace industry in the development of a second-generation supersonic airliner – or High Speed Commercial Transport – to replace Concorde.

It is unlikely, however, that any HSCT could emerge before the year 2005 at the earliest. Before any successor to Concorde could be built, key technological, environmental and commercial economics issues must be addressed.

The HSCT would be expensive to build – some estimates have suggested it could cost $15bn or more to develop – and it is likely to face even more severe environmental restrictions than Concorde in terms of noise levels and pollution.

No single company can afford that sort of money – particularly with other large subsonic aircraft studies such as the 800-seat Ultra-High Capacity Aircraft under way.

A single US-led international effort to share the research and development costs of the HSCT probably stands the best chance of success, but multinational consortia are notoriously difficult to assemble and manage.

Nevertheless, an informal start has already been made.

The leading airframe manufacturers in the US (Boeing and McDonnell Douglas), western Europe (Aérospatiale, British Aerospace and Deutsche Aerospace) and in Russia and Japan have been working on many aspects of the HSCT for some time, together with the engine manufacturers.

Among the issues, noise will be especially critical. The HSCT's engines will need to be much quieter than those of Concorde in order to use existing airports and meet international aircraft noise regulations which have been progressively toughened in recent years.

The engines will also have to be much more efficient, in order to save fuel and keep down operating costs while also reducing, if not eliminating, pollutant emissions, especially nitrous oxides in the upper atmosphere.

This may mean turning to new forms of engine, perhaps using combined-cycle turbofan-ramjet technology which is being studied in Japan and elsewhere.

The aircraft will also need to make considerable use of low-weight, high temperature-resistant materials, such as ceramics and new composites capable of coping with the extremely high temperatures that will be generated both inside the engines and on the aircraft skin during the longer periods of sustained and faster supersonic cruise that Concorde is called upon to perform.

But although there are still many unresolved technical and other problems, the aerospace industry's general view appears to be that none of these are insurmountable.

Probably the most critical factor in the final decision on whether to go ahead with an HSCT is the likely market for supersonic travel.

Although Concorde has been operated profitably by British Airways and Air France since the mid-1980s, no provision has been made for depreciation costs on an aircraft that cost £1.2bn to develop.

With its payload of only 100 seats, Concord may be an engineering triumph, but its premium fares have always limited its market appeal.

To be commercially viable, the industry believes that the next generation of supersonic airliners will probably have to be much bigger than Concorde, fly slightly faster and have a significantly longer range.

The HSCT probably needs to seat 250 to 300 people in several classes, cruise at around Mach 2.4 (1,500mph) compared to Concorde's Mach 2, and have a range in excess of 5,000 miles compared to Concorde's 3,500 miles.

The range is critical because it would open up new high-density routes such as the trans-Pacific routes from America's west coast to Asia.

For example, the Los Angeles to Tokyo route could be flown non-stop in about 4.3 hours, instead of today's subsonic 10.3 hours.

However research suggests that most passengers are willing to pay only a relatively modest "supersonic premium" of 10-20 per cent over subsonic fares.

There are strikingly different estimates of the potential market size for a new HSCT. The most optimistic suggest that demand in the first quarter of the next century could reach as many as 1,000 new supersonic aircraft, worth some $200bn-$300bn.

However, more conservative estimates suggest that if such an aircraft could be built at an economic cost the market might run to several hundred aircraft at most.

While small in comparison with many subsonic jets built over the past 40 years, that would still make it exceptionally successful compared with the total of 16 Concordes that originally entered service with BA and Air France – reduced to 13 in use today by the need for spares.

The requirement for a "spares pool" serves as a reminder of Concorde's creeping middle age.

Perhaps the real challenge for the manufacturers and the airlines will be to keep Concorde flying until a second-generation supersonic airliner is ready to replace it.

Last year, BA's seven Concordes completed 250,000 commercial supersonic flying hours – more than the combined air forces of the west since the introduction of supersonic combat aircraft.

In some areas the strain is beginning to show. Last year, BA began even more frequent checks following a series of incidents since 1989 in which parts of Concorde's rudder fell off during supersonic flight.

None of the incidents represented a serious risk to the aircraft, but they were an embarrasment. Subsequently, BA asked British Aerospace, responsible for the original rudder design, to manufacture a new series of rudders for its Concordes for a total cost of about £5m.

Each Concorde is at present cleared by the UK and French airworthiness authorities to fly a total of about 7,000 supersonic flights.

BA's fleet of Concordes has already completed more than 4,000 flights and is expected to reach its current operational limit by 1998-99.

The airline operators, the airframe manufacturers (BAe and Aérospatiale) and the engine suppliers (Rolls-Royce and Snecma), have been working to try to extend Concorde's life into the next century. The airlines in particular hope to stretch the life of Concorde until 2010.

In the meantime, BA's Concorde fleet is being given an interior facelift. Eight years after the last refurbishment Concord is getting improved seats – with a folding central arm rest – new decor and galleys.

The 1980s provided Concorde with a significant boost as captains of industry and finance, pop stars and sports personalities climbed aboard to cross the Atlantic in style and on time rather than worry about the cost.

Inevitably, the recession and the cost-consciousness of the 1990s has forced some companies to reconsider the expense of flying senior executives by Concorde. But Concorde still attracts its regular fliers.

Mr W. D. (Jack) Lowe, BA's director of flight crew for Concorde, says the airline remains "very happy" with the Concorde operation and is confident that the service will continue well into the next century. He says the transatlantic flights are currently achieving an average load factor of 60 to 70 per cent.

Apart from regular transatlantic services, BA has run scheduled winter flights to Barbados for the past four years which Mr Lowe says "are busier than ever," and both BA and Air France have also developed successful charter businesses for their supersonic jet.

Paul Taylor

■ OFFICE IN THE SKY

Stay in touch from almost anywhere

THE rapid advance of silicon technology over the past decade has enabled the travelling businessman to stay in touch with the office from almost anywhere on the globe.

Over the past decade the advent of high-powered lightweight notebook computers in particular has made portable computing a real option. By using a modem, the user can remotely send and retrieve information from virtually anywhere there is a telephone line.

Today there is nothing surprising in the sight of a business executive struggling with a shoulder bag bursting at the seams with electronic gadgetry or opening a briefcase to reveal the latest in slimline notebook computers - and perhaps even a portable printer or fax machine.

Soon, a new generation of pocket-sized machines called personal digital assistants will add a further dimension to the concept of the mobile office by combining the functions of a pen-based computer system and a mobile telecommunications device.

Voice and data communications services are becoming more international. For example since last September it has been possible to contact business travellers in five European countries - Germany, France, Italy Switzerland and the UK - by pager using the Euromessage service provided by Hutchison Paging.

Singapore Airlines was the first commercial carrier to use Skyphone and is installing the service on all its long-haul fleet. Singapore Telecom is part of the Skyphone consortium

Similarly, the introduction of digital cellular telephone services across Europe based on the pan-European GSM standard means that travellers will soon be able to use their mobile phone or even more conveniently, their GSM smartcard, anywhere in Europe.

These terrestrial telecommunications developments are being mirrored by the introduction of new systems and services in the air. On many airlines, particularly in North America, the business air traveller will soon be offered all the voice and data telecommunications available in the office from the comfort of his airline seat.

These new digital telecommunications services range from high quality voice telephony to facsimile and computer data links, together with a wide range of entertainment and information services.

A basic air-to-ground public telephone service based on VHF radio has been available to passengers on many US carriers' domestic flights since the mid-1980s. The first passenger telephone call from an airliner was made in October 1984 on an American Airlines flight from Dallas to Chicago using the Airfone service.

Until the beginning of last month, more than 26m calls had been made using the GTE Airfone system which is now installed in almost 2,000 jets operated by 11 US airlines. Most of the systems are seat-based, although a few of the earlier installations feature cordless bulkhead-mounted equipment.

But despite the popularity of these services, which cost about $2 a minute for a domestic call, the technology behind them has some serious limitations.

In particular, because it is based on older analogue radio telecommunications technology - like most terrestrial cellular telephone systems - call quality is not always what it should be. And because it relies upon the signal being passed from one ground station to the next, calls are sometimes dropped.

In addition, the equipment on the aircraft is limited in its range to the line-of-sight between the aircraft and the nearest ground station - a maximum of about 200 miles. This means the service is limited to flights above continental America and up to about 200 miles out to sea.

Most of these problems are being addressed by the introduction of new air-to-ground systems based on digital technology, and by satellite communications. Digital systems not only provide much clearer call quality, they also enable a wide range of value-added services to be offered.

In the US, In-Flight Phone, an Illinois-based company, was the first to develop a digital communications system for aircraft passengers. Its FlightLink system is based on 50 US ground stations and was developed over three years at a cost of $65m. Last month, following operational trials, USAir decided to install it in up to 402 of its aircraft by the end of 1994.

In addition to air-to-ground, ground-to-air, air-to-air and seat-to-seat calling, the in-seat system can also provide a wide range of other services including facsimile and computer data transmission, computer video games, news and stock quotes and mail-order services. Credit cards are used to pay for all the services.

FlightLink is being evaluated by a number of other US airlines and several in the Middle East. Meanwhile, GTE Airfone will introduce its own digital system, called GenStar, in mid-year. Like FlightLink it will also provide a host of new services including fax services and personal computer connections. GTE plans to have all existing Airfone installations converted to GenStar equipment by mid 1996.

Meanwhile, Claircom Communications, formed in 1990 as a joint venture partnership between McCaw Cellular Communications and General Motor's Hughes Network Systems, has launched a service aimed at providing digital telecommunications systems for corporate jets as well as the commercial market. The company launched its AirOne system in 1992, with orders from Alaska, Southwest and Northwest to equip a total of 550 aircraft.

All three US digital service providers are also linking up their systems with emerging satellite-based digital telecommunications systems to provide worldwide access. They will be compatible with the planned European terrestrial flight telephone system (TFTS).

Unlike the competing US systems the TFTS will be a single system, initially covering all of western Europe. Competing service providers will use the same network of ground stations which will be operated by the national telecommunications organisations.

However, delays in its construction have hampered the growth of passenger aircraft telecommunications in Europe. Indeed there is some doubt about whether such a system is needed at all.

Although air-to-ground telephone systems will probably continue to provide the lowest-cost services and are most suited to short-haul flights, their limited coverage means that digital satellite-based service providers - such as the Skyphone consortium comprising British Telecom, Norwegian Telecom and Singapore Telecom - also have a key role to play, particularly for long-haul operators.

The Skyphone consortium developed the first satellite-based passenger telephone service using International Maritime Satellite Organisation (Inmarsat) satellites in 1990.

Singapore Airlines was the first commercial carrier to use Skyphone and is installing the service on all its long-haul fleet. According to Mr Graham Lamble, manager for Skyphone marketing support at BT, the Skyphone service is available on more than 100 aircraft today, most of them business jets.

Skyphone provides both voice and data telecommunications and is due to add a facsimile facility in the near future.

Another significant trend is that passenger telecommunications systems are being integrated with the increasingly sophisticated in-flight entertainment systems which most airlines are installing in their business and first-class cabins.

But not all carriers believe that their customers want office-style telecommunications facilities at their airline seats. Some carriers, particularly those in Europe and many in east Asia, believe that their business customers would rather relax than work during flights. In research conducted by several airlines including Virgin, Cathay Pacific and British Airways, passengers put business services near the bottom of their list of priorities.

BA conducted detailed interviews with 80 frequent business fliers 18 months ago and discovered that its passengers most wanted to use the time to relax before their next appointment. The passengers also emphasised that they wanted to manage their own time and be treated like individuals "rather than pin-striped businessmen."

"They do not want the seat turned into an office," said Mr David Charlton, group brand manager for BA's long-haul fleet.

Accordingly BA is trying to turn their seats into "their favourite armchair in the sky." Based on the research and trials, BA is still considering whether to install passenger telephones in business and first-class cabins for occasional use.

Instead, it is emphasising passenger well-being and comfort by installing new Club World seats and a state-of-the-art eight-channel seat-back video system providing passengers with an unrivalled choice of viewing entertainment.

Paul Taylor

New digital telecommunications services include high quality telephony

BUSINESS AIR TRAVEL 8

■ THE CHANNEL TUNNEL CHALLENGE

Is there room for plane and train?

The journey between London and Paris must rank as one of the most *frustrating in the world.*

In terms of distance, the two capitals are separated by just 300 miles – a trip of perhaps three hours by conventional train or nearer two by France's *Train à Grande Vitesse*. But the irritating intervention of a strip of water called the Channel stretches *the train-and-ferry journey to a marathon* seven or eight hours.

Not surprisingly, business people travelling between the two capitals choose air transport every time. But this could change. *Business people are about to discover* a new way of travelling between London and Paris (or Brussels) called Eurostar – the brand name of the international express train service due to start running through the Channel tunnel in June next year.

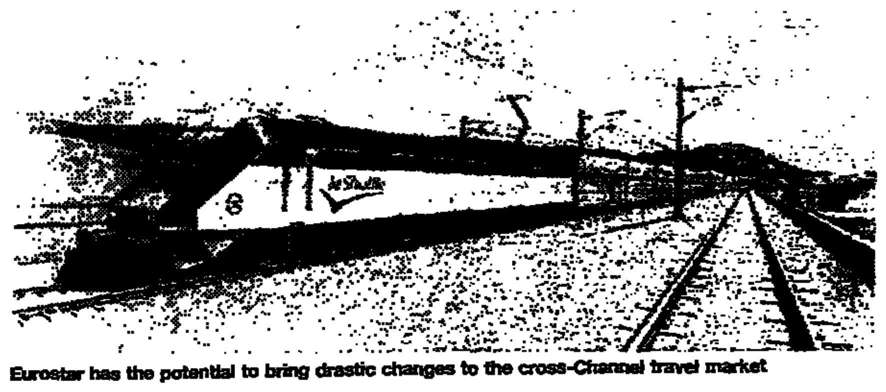
Eurostar has the potential to bring drastic changes to the cross-Channel travel market. Its attractions are clear: instead of having to make the journey out to an airport, allowing an hour for checking in, undertaking the air journey and transferring from the airport to the city at the other end, *people will be able to travel* directly from city centre to city centre in a single leap by Eurostar.

The trains themselves – 31 of them – have been specially designed for international services. Each will have a power car at each end and 18 carriages in between, *producing an overall length of a quarter of* a mile. Ten carriages will be first class, *with seats for 210 passengers; six will be* second class, with seats for 584 passengers; and two will be bar-buffet vehicles.

In the second-class area, seats will be mainly airline-style, facing in the same direction, *although* some will face each other across tables. Food will be available from the buffet, and a trolley service will serve snacks. Multilingual personnel on board will offer information and help.

Clearly the first-class accommodation will be the main focus of competition for *the business travel market. Here, Eurostar* will offer what it calls "high quality service in a relaxed and sophisticated ambience". Seating will be spacious, with three reclining seats across the width of the carriage. There will be a choice between seats facing each other across a table and *seats facing the same direction. Hot meals* will be served to passengers at their seats.

Rail travel therefore looks likely to be highly competitive with airlines in terms of space and comfort. It will also be competing on price, although both sides are keeping their pricing strategies under *wraps. But what about speed and frequency?*



Eurostar has the potential to bring drastic changes to the cross-Channel travel market

If, as planned, the services start in June 1994, *the initial timetable* is expected to offer one train an hour each way between London and Paris. Services will run between Waterloo Station in London and Gare du Nord in Paris, with *some* trains stopping at Ashford on the *British side* of the tunnel and at Fréthun (near Calais) or *Lille on the French side.*

The trains, modelled on the French TGV, will be fast: they will travel at speeds of up to 300kph (186mph) on the high-speed TGV Nord line between Paris and Fréthun.

On the British side of the tunnel, however, they will be unable to get up to anything like their top speed because they will have to use the existing tracks between London and the coast, sharing them with Network SouthEast commuter trains. The result is that the total journey time for non-stop trains will be *three* hours.

Eventually, this should change. Britain says it plans to build a new 140mph railway between London and the coast to take the Eurostar trains and some fast commuter trains. Still to be determined is how the line will be funded or when it will be built, but the British government is hop*ing it will be ready to open* by around the turn of the century. If and when it does, a London-Paris non-stop journey will take 2hrs 27mins.

Even at the slower speed, however, it can be seen that the train service *will be* very competitive with air travel on city *centre to city centre journeys*. A typical weekday trip by air from London to Paris might consist of an hour's journey from London to Heathrow airport, an hour's wait at the airport, an hour on the aircraft, and an hour to get into Paris at the other end: four hours in total. The train *will also enable people to work or relax* without interruption from one end of the journey to the other.

On the face of it, then, Eurostar would seem set for easy victory in the London-Paris market.

But it would be a mistake to write off the airlines too soon. Mr Richard Hannah, transport analyst at UBS, points out that people's decisions about whether to use train or aircraft on a journey from London to Paris will depend very much on where their journey *starts from.*

"Clearly the train is quicker from city *centre* to city centre, but in real life that's not necessarily where people's journeys begin and end," Mr Hannah says.

"If everyone started their journeys from Trafalgar Square, for example, then the train *would be quicker*. But if *you are* a businessman setting off in the morning *from* your home in the Surrey or Hertfordshire commuter belt, the idea of travelling into London to take the train might be less attractive than driving to Gatwick or Heathrow airport."

In other words, *there will be* room for both the train and the plane after the *tunnel opens*. Inevitably, though, the airlines will suffer a sharp diminution in their market. If they have not been complaining too loudly, then Mr Ian Wild, transport analyst at Barclays de Zoete Wedd, says it is not altogether surprising: profits on short-haul European services are *notoriously so small that most airlines* would be only too glad of the opportunity to reallocate aircraft and slots to more lucrative routes.

Richard Tomkins

■ LUXURY AT 40,000 FEET

Claims and counter-claims

It is a curious irony that airlines are waging some of the industry's most intense competitive hostilities over cabin hospitality for the relatively small pool of business travellers in these days of global recession.

It is a rivalry over inches of in-flight leg room and video channel selections as well as the squashiness of chairs.

The elusive corporate cash has reduced airlines to making claims and counter-claims about who introduced which feature first as they compete to seat board members.

Mr Mike Batt, British Airways' newly-appointed marketing director, claims to have started the trend for airlines to focus less on first class and more on improved business class.

He says: "In 1988 we were the first to re-launch our long-haul business class as a 'diluted' first class."

BA spent about £25m on its ClubWorld in 1987: "Before that it was a sort of beefed-up economy class. There has been a step-change in quality."

He says the improvements have increased revenue and the number of passengers: "In the first year, revenue went up about 24 per cent."

BA's move forced all other airlines to match the new standard and more than *20 airlines were forced* into re-launching their business air travel services, Mr Batt says.

Today, BA is in the throws of a further £100m re-vamp spanning all its premium brands which it styles as a big assault on the world's business air travel markets. *Much of the* new service was launched on April 1, *with the remainder* coming into cabins from April 15:

"In 1988 we thought the seat was great; fours years later we realised it doesn't really suit people over six feet one inch. Also, the cradle for the head could have been softer and the *foam on the base of the seat* seemed a little too hard," Mr Batt says.

BA is also introducing between six and eight new video channels – beaming out an estimated 60 hours of programming on a loop which will bring the executive everything from BBC documentaries to Hollywood films.

Aside from the comfort required by harassed executives who need to be fresh for their foreign business affairs, Mr Batt believes that business air travel facilities offer clients the reliability they need:

"We maintain back-up aircraft in case a plane goes down on us. You can't just say to the business traveller 'Sorry, the *plane's sick, you can't go to* New York today.' "

Mr Richard Branson's Virgin Atlantic Airlines takes an equal pride in pandering to the tastes of those able to pay more for their tickets, in spite of his egalitarian, balloon-and-sandals public image.

A *straight comparison* between Virgin's Upper Class and BA's Club World is not appropriate because, like several other airlines, Virgin today offers a cheaper version of first class while BA and others have stayed closer to their executive class services.

Coincidentally, however, Virgin also plans to make an announcement about improvements to services in the next couple of months, *timed to* coincide with the addition of new aircraft to the fleet.

"We were the first to introduce seat-back TVs in all the cabins of the aircraft and we will shortly be offering up to 14 video *channels* and *12 audio* channels," the company says.

It *plans to offer* "interactive systems" which will allow customers, for example, to book hotels at 40,000 feet presumably while watching TV from their reclining seats.

Virgin says it is the market *leader* in seat space: "We offer 55 inches in Upper Class which *Continental* have just copied from us. In terms of MidClass, we re-designed a business-class seat to give the most comfortable economy seat with 38 inches of leg room."

Virgin appears to have a particular concern for its clients' looks. It provides a care-pack of cosmetics including a facial spray, moisturiser, a toothbrush and a comb.

The airline offers business *travellers the services of an* in-flight beauty therapist who can provide manicures, facials as well as neck and scalp massage, on selected flights.

The company says it aims to help the business traveller forget about *flying*: "it is tiny touches like offering travellers a *choc-ice during the films*, and complimentary drinks throughout the flight, which are designed to hide the fact that they are airborne."

Virgin believes that ultimately it is the flexibility of service that attracts business traveller to its cabins: "Businessmen need *that flexibility*. They need to know that if they don't show up they have not lost their ticket."

Continental Airlines, USAir and SAS Scandinavian have improved their long-haul business class to a standard similar to the first-class services they *have abandoned, according to* a recent survey of 12 airlines' business travel services conducted by Executive Travel Magazine.

Last year, Continental launched its BusinessFirst service which does indeed match Virgin's 55 inches, but both have been outdone by Sabena's announcement of plans for a luxurious 62-inch stretch *across the Atlantic.*

BusinessFirst tactfully offers "extra wide", electronically-adjustable, sleeper seats (which cost £5,000 apiece), with six-channel videos built into the armrests. One programme, called "Air Show" is a map showing where the aircraft is *at any given point.*

Continental's pitch is explicitly about comfort rather than the ease of in-flight working. Services such as faxes, computers and telephones, for example, have been ignored on the basis that passengers prefer to leave work behind.

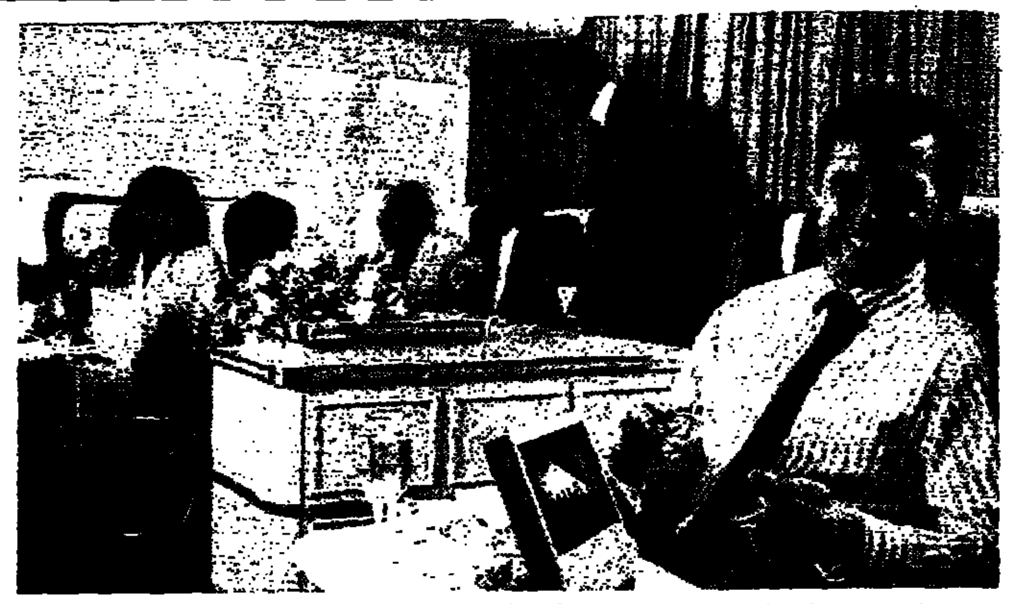
At the time of the launch, Mr Robert Ferguson, the airline's chief executive, said the new *service would "deliver far more* value for the traveller's money."

The push that many airlines have made to improve in-flight entertainment has been marred by their poor performance, which Executive Travel puts down to a misguided *attempt to install new technol*ogy in old cabins. Emirates is the exception in this.

The success of these Disneyesque efforts to conjure a wonderful world which will lead executives to one airline's seats rather than another's is difficult to gauge. Research commissioned by Mintel the research group from Oliver & Company, however, last year *concluded that no single factor* influenced choice of airline.

One 35-year-old resource director who makes more than 15 air trips a year said: "I wouldn't go with a Mickey Mouse airline but in terms of reliability and scheduling, I think so much is in the hands of the air traffic controllers rather than the airline that whether you fly Lufthansa, KLM, or BA makes absolutely no difference to whether you are actually going to get off the ground on time."

Cathy Milton



BA first class: Levels of cabin hospitality have become the subject of intense competition between airlines

■ COMMUTER AND EXECUTIVE AIRCRAFT

No-frills, anti-glamour ethic seems to prevail

ALONG with elegant offices, there is perhaps no other *greater sign of* corporate prestige and well-being than private aircraft.

In addition to conferring status, they absolve senior managers from the time-consuming procedures of commercial air travel, they can deliver managers more *rapidly* and closer to their destinations and allow them to make *multiple stops* in a day and still be home for dinner.

Glitz aside, these advantages tend to add up to greater managerial productivity and efficiency. Yet, while such corporate goals might be highly desirable, over the past several years companies in *straightened circumstances* or faced with difficult economies have been unwilling to make the extra investment in private aircraft.

Moreover, in the 1990s, a no-frills, anti-glamour ethic seems to prevail. At Beech Aircraft, the market leader in turboprops, for example, officials say they've recently seen companies turn in their *higher-priced fan* jets (also more costly to operate) for *cheaper* and more work-a-day turboprops.

"It looks more prudent to the stockholders," said Mr Michael Potts, spokesman for Beechcraft.

This kind *of thinking in corporate* boardrooms has led Cessna, owned by Textron and the leading jet maker (with about 60 per cent of the market), to make a cheaper aircraft, the CitationJet.

At just \$2.7m – the bottom of this jet line's price range – it aims to reach down into the turboprop market, says Mr Philip Michel, Cessna's director of marketing. "They can get the advantage of a jet without the big price tag," he said.

Choosing the right aircraft depends on a company's *needs and* its budget. For trips of 200-400 miles a turboprop – which travels more slowly than a fan jet – is probably adequate. Turboprop prices can start at less than \$250,000. Beech, however, does manufacture a turboprop for the image conscious. The Starship, *made of composite* material and brandishing a price tag of about *\$4.9m, is the top of the* line.

Jets are usually preferred for trips of 600 miles or more. Business jets come in three classes, light, mid-size and large, according to speed, comfort, size, avionics and price.

Light jets are the most popular selections but the mid-size market *seems to be growing. In January, Lear* Jet delivered the first five of its new \$8.3m mid-size model, and Cessna is developing a mid-size Citation X, which will sell for about \$14m.

For large business jets, Gulfstream Aerospace leads the category with its Gulfstream IV, which can take a dozen passengers comfortably across *the Atlantic. It sold 25 last year, at an* average cost of about \$21.5m.

The selection of a helicopter rather than a fixed-wing aircraft tends to be dictated by the availability of heliports. In *New York, where rooftops* can serve as landing pads, helicopter use – *especially for flights to airports* – is fairly common. But in many other locations heliports are scarce.

Mr Frank Jensen, president of the Helicopter Association International, *says that helicopters suffer because* they are perceived as "a convenience tool of the rich and famous." *Mr Donald* Trump, the 1980s real estate magnate, no doubt contributed to this image problem. He flies a 44-passenger Boeing "Chinook."

Nonetheless, helicopters are the only choice for some companies, *particularly those in oil and mining*, which work in areas where landing a *fixed-wing aircraft is impossible*.

Business aircraft manufacturers say their sales generally reflect the ebbs and flows of the world economy. Total worldwide shipments of 46 US manufacturers fell 5.8 per cent last year compared to 1991.

But in the US, where the economy is picking up steam, sales are starting *to revive*.

Mr Bill Robinson at Lear Jet said: "We took 32 new orders in December and January and we haven't had two months like that in a long time." Although Lear Jet is based in Wichita, Kansas, it is owned by Bombardier of Canada.

The uptick in American sales is also being prompted in part by anticipation that the new Clinton Administration will reinstitute an investment tax credit. If an ITC goes through, the General Aviation Manufacturers Association, the industry lobby group in Washington, believes its members *will see a further jump in sales. Meanwhile*, it is fighting hard to make sure that the ITC does not somehow exclude aircraft.

By contrast, in Europe where recessionary gloom is colouring corporate outlooks, sales have been *drooping. The sales figures from* Cessna tell some of this story.

Since 1988, Cessna's balance between US domestic sales and those overseas has been moving from its traditional 70 per cent-30 per cent split to closer to 50-50. But in 1992, the *division swung back to 66 per cent* domestic and 34 per cent foreign.

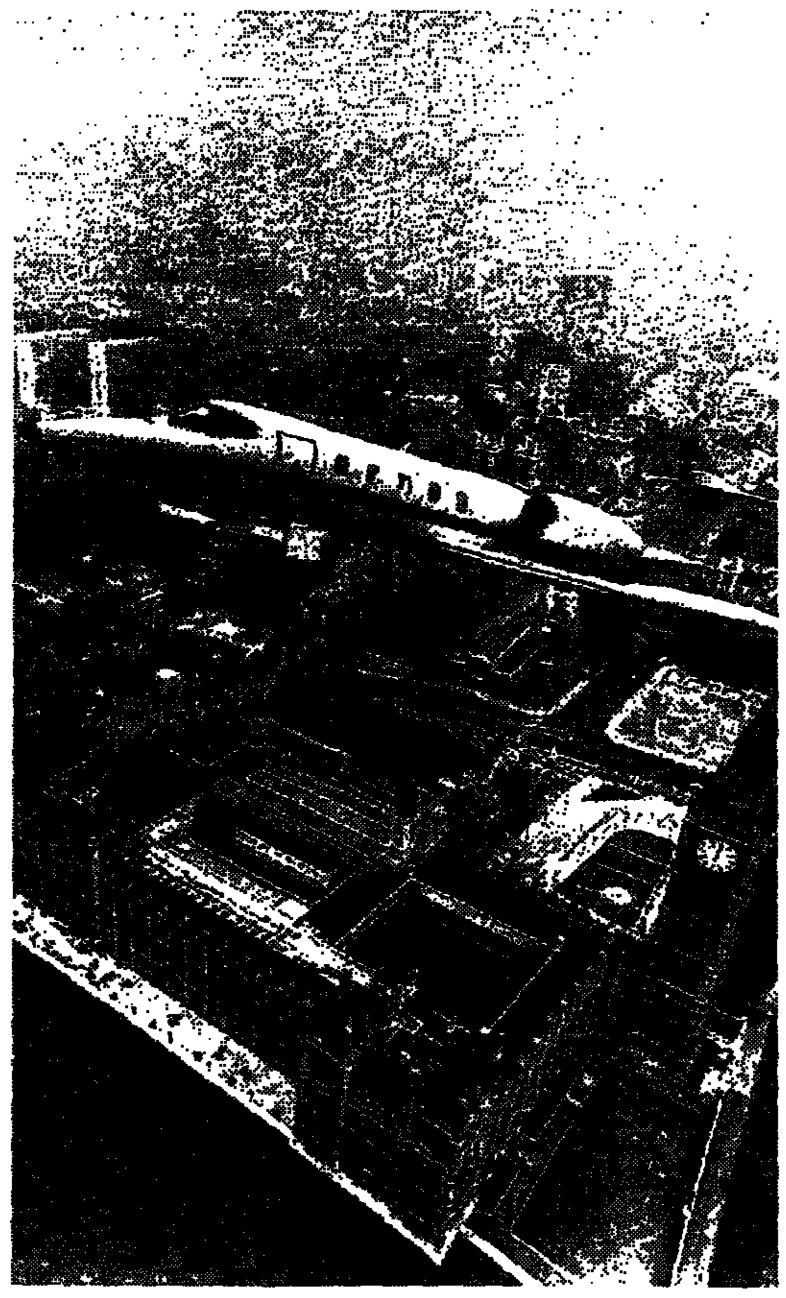
While leading business aircraft companies such as Cessna and Beech say the European market has considerable potential, they do not believe that their level of penetration there will ever reach that of the US. In the *total of the world's business aircraft* fleet, Europe only accounted for some 13.4 per cent last year while the US claimed 65.8 per cent.

A key factor limiting the business aircraft market in Europe is that Europe is a smaller land mass. Also, *its biggest commercial centres* are already well served by commercial carriers. European company headquarters are also more often located in leading business centres than in the US, where increasingly companies are choosing semi-rural sites.

The liveliest foreign markets for aircraft, *say manufacturers, are now in* the newly industrialising countries. The countries of the Pacific Rim and Latin America, once largely buyers of used aircraft, are now purchasing new private aircraft. Mexico is mentioned as an especially dynamic market.

There is some speculation, too, that eastern Europe, underserved by commercial airlines, may become a good market.

Barbara Harrison



Jets are usually preferred for trips of 600 miles or more

Pictures: Glyn Genin

The availability of heliports tends to dictate whether or not a helicopter is selected

■ BUSINESS TRAVEL IN THE US

A more stable environment

BUSINESS travellers in the US may be biting their nails at present. *After three years* of intense price competition in the *US* airline industry – which has contributed to the sector's \$10bn-worth of losses over the period, but been a boon to corporate travellers – there are signs of a more stable environment and *higher fare levels*.

The first big blow for the business community was probably struck a year ago when American Airlines, one of the nation's largest carriers, announced its fare simplification programme.

Superficially, this appeared to benefit the business traveller. Out went a whole *raft of special promotional* fares, and instead American said it would focus on four core ticket classes – namely first class, coach, seven-day advance purchase and 21-day advance purchase. Fares within these classes would be generally lower than for *comparable existing classes*. First class fares under American's "Value Pricing" scheme, for example, were to be 20-50 per cent lower than existing full first-class fares.

The drawback was that American also announced that it was discontinuing the *discounts offered to leading* corporate travel buyers and was imposing a \$25 fee on every rescheduling or refunding of a ticket. Unfortunately, while the simplified fare structure *proved short-lived in the face* of an intense bout of summer ticket promotions, the removal of corporate discounts and the \$25 fee for ticket changes have tended to persist.

Now, as the industry has *escaped the bleak winter* travel period and is scrambling to repair some of the damage wrought over the past three years, there are clear signs that airlines are trying to push their prices higher, *particularly* where the business customer is concerned.

Whether these higher fares persist in an often-kamikaze industry remains to be seen. But there is reason to think that they probably will.

For a start, the slow *improvement in demand* – coupled with the cutbacks which some carriers are threatening to make in domestic schedules – may pull demand and supply into better equilibrium. Perhaps even *more significantly*, the number of bankrupt airlines – whose *cashflow needs have often* triggered the intense fare wars – looks likely to diminish.

Continental Airlines and Trans World Airlines are both *poised to emerge from Chapter* 11 bankruptcy protection, *leaving only America West* with an unresolved future.

Certainly, the business travel lobby is already girding up for action. The National Business Travel Association, for example, makes the point that travel is the third-largest operating expense for many big companies and that – in *a straightened, albeit* improving economy – increased ticket prices will either lead to reduced travel budgets or a halt to travel altogether.

"In either case," says the NBTA, "airlines are deprived of customers and so are hotels, *car rental companies*, restaurants, airports and other suppliers in the private sector who depend on the dollars our members spend in the travel network".

How the needs of the airline sector and the business community generally can be *meshed will form part of the* raft of issues addressed by the new *commission set up by Mr* Federico Pena, Transportation Secretary, to examine the US commercial aviation industry's problems.

Already, some pre-emptive lobbying is under way. The NBTA, for example, is *anxious* to secure some fiscal breaks. *It recommends reducing the* domestic ticket tax from 10 to 8 per cent, claiming that this would encourage an additional 6.5m passengers annually, creating 7,500 jobs and profits of \$300m.

It also suggests that passengers should be *taxed according to actual usage* – that is that taxes should be imposed on a cost-per-mile basis, at 5-6 cents per mile. This would also benefit the business traveller.

A more fundamental *question is whether the* commission recommends some form of "re-regulation" of domestic fares, and how this might help or hinder the business traveller. The airlines are generally opposed to any *capping or even underpinning* of fare levels by a federal body; they remember the bureaucracy and inefficiencies which existed prior to deregulation of the domestic fare environment in 1978, and are *not anxious to return to* this situation.

The business travel lobby is inclined to support this position. The NBTA, for example, acknowledges that some financial stability in the *industry might be a good* thing, but is equally aware *that deregulation has pushed* down fare levels for business as well as leisure travellers.

Finally, there is little sign that service levels have altered significantly over the past 12 months. Despite the efforts *of some carriers to justify their* higher fares by boasting about seat comfort, food service and so on, most passengers are probably more conscious of the shrinking size of meal portions.

According to Department of Transportation figures, *punctual arrivals and the* reliability of baggage handling have generally improved – although the statistics themselves have been subject to criticism in the past.

Nikki Tait

■ CHARTER SECTOR

Signs of an upturn detected

Britain's air charter business, battered and bruised by the recession, has emerged a fitter sector after months of falling demand and *increasingly* cut-throat competition.

The cost has been high: the business is littered with the wreckage of charter companies that failed to generate enough income from hiring-out air*craft to cover growing maintenance* and operating costs. But those who survived are beginning to see signs of an upturn as fresh demand begins to per*colate* through the market.

The new business is not the *result of cash-strapped companies* deciding they can afford to charter again. It reflects moves by companies which once owned aircraft to dispose of their fast-depreciating assets and hire private jets instead.

BP and Smith Kline Beecham are among companies that have recently sold corporate aircraft. They have opted to charter aircraft rather than pay several thousand pounds a *year to keep in a* hangar aircraft they used only occasionally.

BP, which until last year owned three jets worth more than £40m, said: "We got rid of the jets and are using char*ters where necessary.* We decided we could not justify *having our own fleet; they* were just too expensive and it was not economic."

All this is good news for companies with aircraft of the range and speed to meet the long-haul requirements of multinational companies. According to Air London *International*, UK-based brokers for executive aircraft, there is steady *demand for jets* capable of intercontinental flights. It predicts growth this year of 15 per cent.

Mr David Savile, Air Lon*don's operations* director, foresees particular growth in executive trips *to the CIS, where* Aeroflot's erratic timetable does not lend itself to the itineraries of businessmen hoping to invest in the former Soviet Union.

"It's an operator's dream because there's *no practical* alternative. No-one would opt for an *internal flight with* Aeroflot," he says. "We're seeing substantial growth in that market. Three years ago the only place we could fly to was *Moscow but now* we can go almost anywhere."

His assessment is echoed *at* Air Hanson, the *subsidiary* of the UK conglomerate, which has seen increased demand in the former communist bloc.

Ms Brenda McCune, operations manager at Air *Hanson*, says: "There is a definite upturn in fixed wing activity into eastern Europe, largely as the result of more airfields becoming accessible."

Although demand is picking up for charters to outlying *destinations such as Tbilisi or* Tashkent, the trickle-down effect from big companies selling aircraft and entering the charter market has not yet reached the smaller operators.

Such operators are dependent on medium-size companies which in the past char*tered private aircraft but* are now booking senior managers on commercial flights. This cost-cutting has had a direct knock-on effect on air charter companies operating short-range turboprops.

These *operators, often the* first call for companies seeking *an alternative* to airlines, have seen profit margins squeezed and business dry up. Several small operators, *such* as Rogers Aviation at Luton and Skyline Aviation at Southend, have not survived. *Others are diversifying into* maintenance and aircraft sales to stay in business.

One of the survivors, RM Aviation, has concentrated on other sources of income, such as developing aircraft equipment and in-flight computer software, to offset the charter *downturn*.

Mr Peter Roberts, RM's managing director at Leavesden Airport, north of London, admits: "We haven't had an *easy* time and I wouldn't be surprised if more companies folded.

"Unless you diversify in this business you are very vulnerable. Companies that are just into chartering could suffer badly because there's a price war looming, with some opera*tors flying aircraft at below* cost just to get the business."

Among its five aircraft, RM operates a turboprop owned by Rothmans International which it also charters to Whitbreads, the brewers, and Argyll Group.

The company is benefiting from a new market *trend* imported from the US. This involves a company which owns its own aircraft giving a charter operator a management contract and permission to dry lease it to other users.

RM Aviation operates an aircraft owned by Rothmans *International, the tobacco* company, which it also charters to Whitbreads and Argyll.

In the US the system, pioneered by Ohio-based Executive Jet Aviation, is seen as the next development in air charters. Under the scheme, the charter company buys an aircraft and then sells a share to one of its clients.

Executive Jet, for example, will sell a 12.5 per cent share in a Cessna Citation for *\$315,000. The client is guaranteed* access to any of the jets managed by the company without incurring crew or maintenance costs. Since 1988, more than 50 companies have joined the so-called Netjets *programme*, generating \$25m dollars in revenue.

Few British *charter* companies, however, are thought to have the financial muscle required to start such a scheme. And Mr Savile at Air London warns that until there is a sustained recovery most *operators will continue to* struggle.

"Margins are very tight and prices have not increased at all," he adds.

The *pressure* on operators has been further increased by the lack of landing and take-off slots at Britain's most pop*ular hubs: London Heathrow* and Gatwick. This has prompted operators to move their business aviation facilities to alternative sites such as Stansted and the City Airport in London's Docklands.

More than 50 executive aircraft are now based at Stansted, where Esso has redeveloped the old passenger terminal as a business aviation centre. But the recession has led *to a 5 per cent decline in* executive charter passengers *at Stansted, while expansion* at London City remains restricted by limitations on night flying and aircraft movements.

The growing number of airports offering business avia*tion facilities – in a sector* where operators are chasing demand and fuel prices are falling – means the executive charter business has become a buyers' market. Clients can pick and choose from a glut of *available aircraft which operators* are anxious to get in the air; *some companies are offering* attractive charter-lease schemes; and there are more take-off points and destinations.

"Operators will be under pressure to cut prices further *and although the recession* may be ending in the wider economy, it will take some time for this market to feel the *benefit*," says *Ms* Ingrid von Hentschel industry analyst at Beeson Gregory.

Ms von Hentschel, predicting only a small increase in *demand* at the top of the market, warns: "The conditions *remain for more companies to* go out of business. The casualty list is going to be a long one."

Tim Burt

هكذا من الأصل

■ **Leslie Colitt** reports on air travel in eastern Europe and the former Soviet Union

Aeroflot break-up fails to halt chaos

One endured flights with Aeroflot, the all-purpose airline of the former Soviet Union, which treated everyone with equal contempt.

By comparison, flying with eastern European airlines such as Poland's LOT, Czechoslovakia's CSA and Hungary's Malev was an eye-opener. Although hobbled by the command economy, they often managed to provide excellent service and food while being forced to use inefficient Soviet-built aircraft.

These east European airlines, at least, have benefited enormously from the transition to the market economy. Aeroflot's unlamented break-up might have been expected to raise a cheer among its domestic and foreign victims. But anyone attempting to book flights within present-day Russia and the other CIS states soon discovers that air travel has become even more chaotic than in the Soviet era.

Although Aeroflot was hacked up into more than 100 successor airlines in Russia and the CIS, only a few of them such as Estonian Air are much of an improvement on the old monopoly carrier. Passengers still wait for flights in austere *nakopitel*, the quaint Russian word for waiting room which translates as accumulator.

Passengers lucky enough to corner a round-trip flight from Moscow to Kiev may well discover in the Ukrainian capital that all flights to Moscow have been cancelled because of an acute shortage of aviation fuel. As a rule of thumb the reliability of local fuel supplies and their cost often determines whether one will get back to Moscow from any CIS destination.

Aviation fuel which costs $200 a ton in Moscow may cost $320 in Kiev and $600 a ton in Alma Ata in Kazakhstan and is unlikely to be available because of Russia's reluctance to sell at subsidised prices.

In the old days, westerners flying Aeroflot could at least be assured a ticket for a fixed price in hard currency and therefore enjoyed automatic priority over Soviet passengers who were dumped at will. Now the price of a ticket for an internal Russian or CIS flight is determined by what the market will bear and is often sold by scalpers at many times the stated fare.

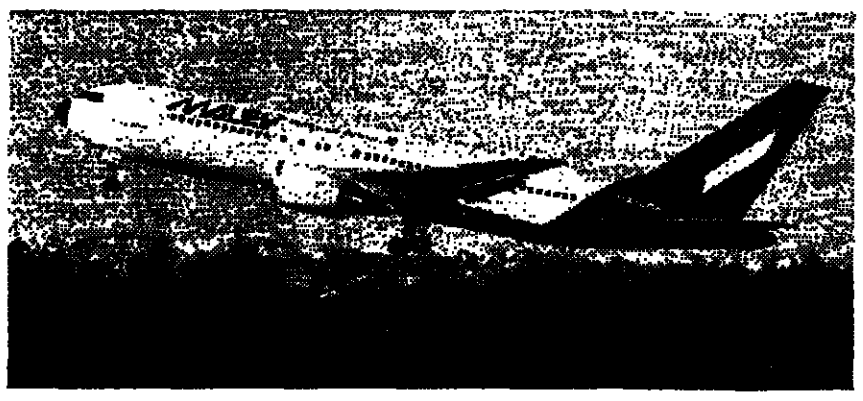
Last February the Russian government slashed subsidies to airlines and allowed them to raise prices. But an eight-hour flight from Moscow to Khabarovsk was still recently quoted at 40,000 roubles – about $50 for Russians – although it cost many times this by the time it reached the end user.

Settled into their aircraft seats after testing the often dicey toilets, travellers find themselves confronted with the same insolence they encountered from flight attendants who flew the skies with Aeroflot. Now, though, stewardesses peddle everything from western magazines to cosmetics and even lottery tickets which they buy for resale on their own account.

A nucleus of the old Aeroflot continues in the form of Aeroflot Russian International Airlines which maintains air links between Russia and the rest of the world with just over 100 aircraft, including five leased Airbus A310s on routes to south-east Asia and other long-haul destinations. Plans exist to lease three or four additional Airbuses and Aeroflot has ordered five Boeing 737s. Aeroflot RIA was to have been privatised last October but has become the object of many conflicting interests seeking to place it under their control. Small wonder that Air Russia, a joint venture with British Airways which is expected to become operational before the end of this year, is viewed as having far greater potential than the rump of Aeroflot.

One of LOT's Boeing 767s at Warsaw airport's new terminal building

Pictures: Leslie Colitt



Malev Hungarian Airlines has the highest productivity among east European carriers

The most lucrative routes for Aeroflot RIA are those connecting Moscow and St Petersburg with Germany, according to Mr Nikolai Lebedev, head of the Aeroflot RIA office in Berlin. He points out that western passengers make the difference because they fork out DM1,000 for a ticket from Berlin to Moscow – many times what Russians pay to fly to Berlin. Not surprisingly, the airlines of eastern Europe have made enormous progress in improving their efficiency by slashing personnel levels and buying or leasing fuel-efficient western aircraft while maintaining and improving standards of service.

Frankfurt is the most frequent foreign destination for CSA passengers followed by Paris and London

All three east European carriers have made a special pitch toward business-class passengers, offering reduced fares, special gifts and a whiff of old-fashioned, pre-war-style gentility. So far they have attracted two western airlines to invest in their future.

A 32.20 per cent share of CSA Czechoslovak Airlines, which had net profits of Kcs8.4m last year, is now held by Air France and the European Bank for Reconstruction and Development. Alitalia gained a 30 per cent stake in Malev Hungarian Airlines which earned $8.1m last year before taxes and prides itself on being the east European carrier with the highest productivity.

LOT is to be partly privatised in the next two years by linking forces with a western carrier while the Polish state wants to retain a 51 per cent share in the airline.

LOT was quick off the mark to sell most of its lumbering Soviet-built aircraft and now operates three Boeing 767s, with a fourth to be leased and five more on order, as well as seven Boeing 737s and five ATR-72 turboprops together with its remaining Tupolevs. Unprofitable domestic destinations were dropped and emphasis placed on lucrative western routes, especially to Germany.

CSA, which for the time being still bears the Czechoslovak Airlines label despite the split into Czech and Slovak Republics, has two Airbus A310-300s, five Boeing 737-500s and four ATR 72s but retains several solidly-built Ilyushin 62s, Tupolev 134s and Tupolev-154s. As with LOT, Frankfurt is the most frequent foreign destination for CSA passengers followed by Paris, London and New York. Malev has also held on to its TU-134s and 154s while acquiring six Boeing 737s and ordering two B767-200s for the inauguration next month of service to New York. LOT was a pioneer in catering to ethnic Poles in North America for its North American flights and was therefore spared some of the most ruinous competition across the Atlantic.

The author was Financial Times Eastern Europe Correspondent from 1972 to 1992

■ IN-FLIGHT CATERING

Creating and maintaining an image

When passengers complain, it is usually because they did not get the special meal they ordered, says Mr Kurt Hafner, British Airways' Swiss-born director of catering. "But then some people tell us that their doctor has prescribed them caviar."

Airline catering is a frustrating business. Food is difficult to prepare at 40,000 feet, fish dries out in the arid atmosphere, omelettes harden, wine loses its bouquet, champagne fizzes a little too energetically for its own good.

The habits of the passengers are no help. How does one keep food fresh when Scandinavians want to lunch at 11am while Spaniards want it at 3pm... just when the British are beginning to think about tea? Americans are ready to sleep at 10pm when the Spaniards, again, are ready to launch into a full-scale dinner.

Yet the caterers have come a long way from the days when airline food was often a flying fiasco. Today you can eat caviar on Cathay Pacific, lobster in brandy sauce on Singapore Airlines and drink classed-growth Bordeaux wines on British Airways. Even economy class has been known to be on the receiving end of a little smoked salmon.

BA spends £25m a year on beverages alone. Champagne accounts for more than 40 per cent of the wine budget and less than 20 per cent of the volume. The airline has placed the largest order on record with a New Zealand winery, Nobilo, and each year goes through 18,000 cases, at nine litres a case, of its white wine.

Air France has just "redefined the whole of in-flight catering after a long-term study". It now has "an energy brunch, because the passengers are really preparing for a competition." The afternoon sees a *gouter d'affaires* or business tea-time. It claims to be the biggest single buyer of champagne in the world, but is still worried about competing with Cathay Pacific and Singapore Airlines on the level of its first-class wines.

Airlines employ famous chefs as consultants. These include Alice Waters of California's Chez Panisse (American Airlines), Shaun Hill of Gidleigh Park, in Devon (United Airlines) and Michel Roux of London's Le Gavroche (British Airways).

Their wine advisers include British Masters of Wine and US professors of oenology. These experts hold blindfold wine tastings, some after the wine has been on a transatlantic flight, in the hunt for the right drink with which to toast that business deal.

Surely no one chooses to fly on an airline because they had a nice drink last time? Maybe they do. The latest survey of business air travellers by the International Air Transport Association (Iata) show meals to be the fourth most important aspect of travelling in business class. It comes after seat size, faster check-in and lack of crowds, but ahead of frequent flyer programmes and ticket flexibility.

There is also evidence to suggest that passengers are hesitant about admitting that food and wine are important. In spite of advance market research, Virgin Atlantic has found it necessary to introduce a welcome glass of champagne on its Mid-Class – a business class-sized seat on a full economy fare ticket – after pressure from passengers accustomed to the treat in business class on other airlines.

Catering has also become a means for airlines to stamp individuality on a service. This is important in an era when safety is taken for granted, delays are usually out of airlines' control and schedules and destinations can vary little between airlines.

Airlines are therefore taking an ever-more marketing-oriented approach to catering. Food is served as a "destination feature" with hamburgers or pizzas to the US, for example. Cathay Pacific is using Illawarra plums and ground wattle seeds as part of an Australian theme this spring.

Airlines take notice of consumer surveys of the quality of food and wine on aircraft. BA, by its own admission, used to have a haphazard wine operation until the mid-1980s. It was shocked out of its complacency by a magazine survey which placed its wines 16th in a list of 16 airlines, according to Mr Peter Nixson BA's head of wine and beverage development.

Now BA serves 7,000 cases of one premier cru white Burgundy a year and would consider serving a grand cru if it could be sure of delivery in high enough volumes.

The effort in airline catering is being redoubled now that the recession has encouraged companies to demand better value for money for their business-class and first-class tickets. Traditional high luxury is being replaced by lighter fare. Many airlines are considering extending their services to airport lounges so that passengers on short overnight trips can eat before take-off and use the flying time to sleep.

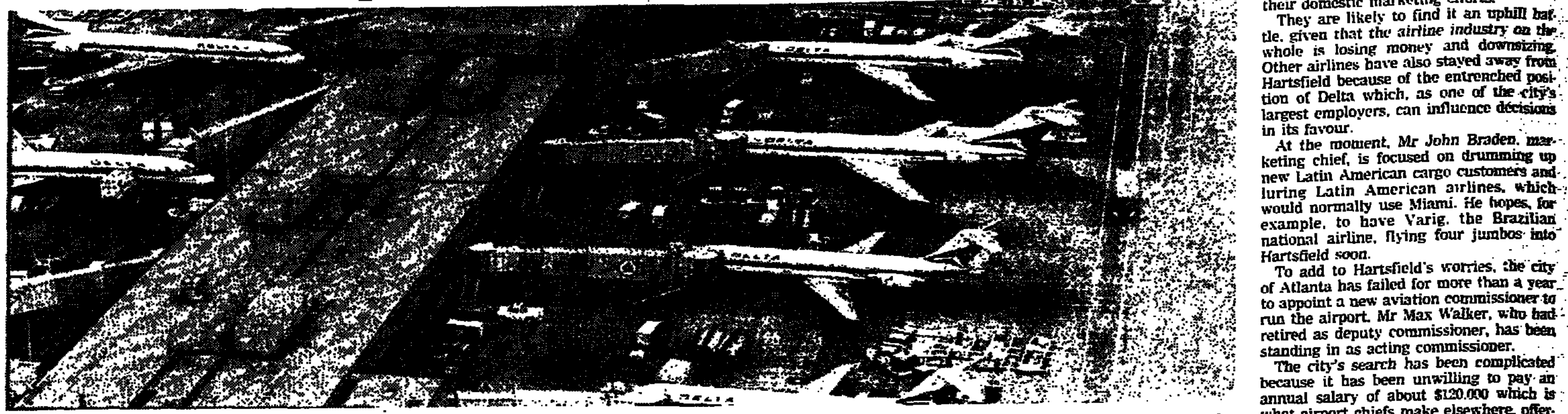
Yet despite the need to be especially cost-conscious during the world economic slowdown, airlines remain convinced of the importance of catering in creating and maintaining an image.

"Food has a powerful residual effect on the memory of a flight," says Mr Hafner.

Daniel Green

■ HUBS: ATLANTA

This airport makes its city tick



Hartsfield Atlanta International Airport is credited with being the city's main economic generator, pumping an estimated $7bn into the local economy annually   Picture: Glyn Genin

Atlanta, born humbly as "Terminus" at the end of a railroad line in the early 19th century, has long seen that its fortunes are tied to transportation. Today, no Atlantan would deny that Hartsfield Atlanta International Airport, the world's fourth-busiest, is what makes this flamboyantly commercial city of 3m tick.

In a conscious strategy to make Atlanta the business capital of the south-east, Hartsfield was built from the 1950s through the 1980s into the leading commercial and passenger air hub of the region. It is credited with being the city's main economic generator, pumping an estimated $7bn into the local economy annually.

But this has not been enough to satisfy the city's ambitions. It now wants Hartsfield to become an international hub – matching its aim to be one of the world's top cities.

To this end, Atlanta's Hartsfield is completing a new $300m international concourse which is scheduled to open next year. It is expected to have the latest in accommodation and amenities for international travellers and to be the largest "all in one" international terminal in the US.

Since 1980 when it was revamped, Hartsfield has claimed it has the world's largest passenger terminal, covering 2.2m square feet. The new international terminal, which will have 12 baggage carousels and be able to accommodate at one time as many as 24 narrow or 18 wide-body aircraft, will add an additional 1.2m sq ft.

The new international terminal is largely an outgrowth of the city's increased international business. The Atlanta metropolitan area is home to more than 500 international companies and 39 international banks. Foreign investment in the state of Georgia, of which Atlanta is the capital, reached a cumulative $7.5bn from 1984 through 1991, according to a recent study of KPMG Peat Marwick.

With 10 international carriers, including British Airways, Lufthansa, Japan Airlines, and Swissair, and services to 27 cities in 18 countries, Hartsfield already handles more than 2m foreign travellers a year.

Atlanta has also had a special spur for its expansion of Hartsfield for foreign travellers. It will be the site of the 1996 Summer Olympic Games and is girding itself with a number of large public projects for the onslaught of tens of thousands of foreign visitors.

Hartsfield handled a total of 48m passengers last year, back up to its 1990 level after weathering a drop in traffic in 1991 to 37.9m. The decrease in 1991 came generally as a result of the US airline industry's problems, but most particularly from the demise of Eastern Airlines, the only US carrier other than Delta Air Lines (the third-largest US airline, whose headquarters are in Atlanta) that a operated out of Hartsfield as a hub.

The failure of Eastern, which had handled one third of of Hartsfield's activity, left 33 gates open, four of which have now been taken over by a revived TWA.

A gradually recovering US economy no doubt lifted passenger traffic at Hartsfield last year. But the bounce back was also helped by that fact that Atlanta is one of the largest convention and business meeting centres in the US, rather than a tourist destination, which has a higher level of discretionary visitors.

The bulk of Hartsfield's passengers are on business. While many gripe about the droning electronic voices on its people movers and its lack of creative concessions, the business travellers who use Hartsfield rate it highly. In a recent survey for the magazine *Business Traveller International*, Hartsfield ranked as the best airport in North America for the fourth consecutive year. It was followed by Dallas-Fort Worth, Tampa, Chicago and Washington-Dulles.

Unfortunately, while the airport wins much praise, all is not as rosy at Hartsfield as Atlanta's city fathers would wish.

Most importantly, Delta, which has lost more than $1bn since the airline industry began its slump in 1990, is being forced to cut staff and service.

In a break with its 36-year-old policy not to sack permanent employees, it announced last month that it would lay off some 600 pilots.

It will also reduce its fleet by 28 aircraft and eliminate some unprofitable flights, both foreign and domestic.

As Delta is the dominant carrier at Hartsfield – accounting for 80 per cent of the airport's connecting and originating traffic – this is unwelcome news for Atlanta.

Hartsfield's officials, who were already working hard to bring in new foreign airlines to use its new international terminal, will now face added pressure to step up their domestic marketing efforts.

They are likely to find it an uphill battle, given that the airline industry on the whole is losing money and downsizing. Other airlines have also stayed away from Hartsfield because of the entrenched position of Delta which, as one of the city's largest employers, can influence decisions in its favour.

At the moment, Mr John Braden, marketing chief, is focused on drumming up new Latin American cargo customers and luring Latin American airlines, which would normally use Miami. He hopes, for example, to have Varig, the Brazilian national airline, flying four jumbos into Hartsfield soon.

To add to Hartsfield's worries, the city of Atlanta has failed for more than a year to appoint a new aviation commissioner to run the airport. Mr Max Walker, who had retired as deputy commissioner, has been standing in as acting commissioner.

The city's search has been complicated because it has been unwilling to pay an annual salary of about $120,000 which is what airport chiefs make elsewhere, offering instead only some $80,000.

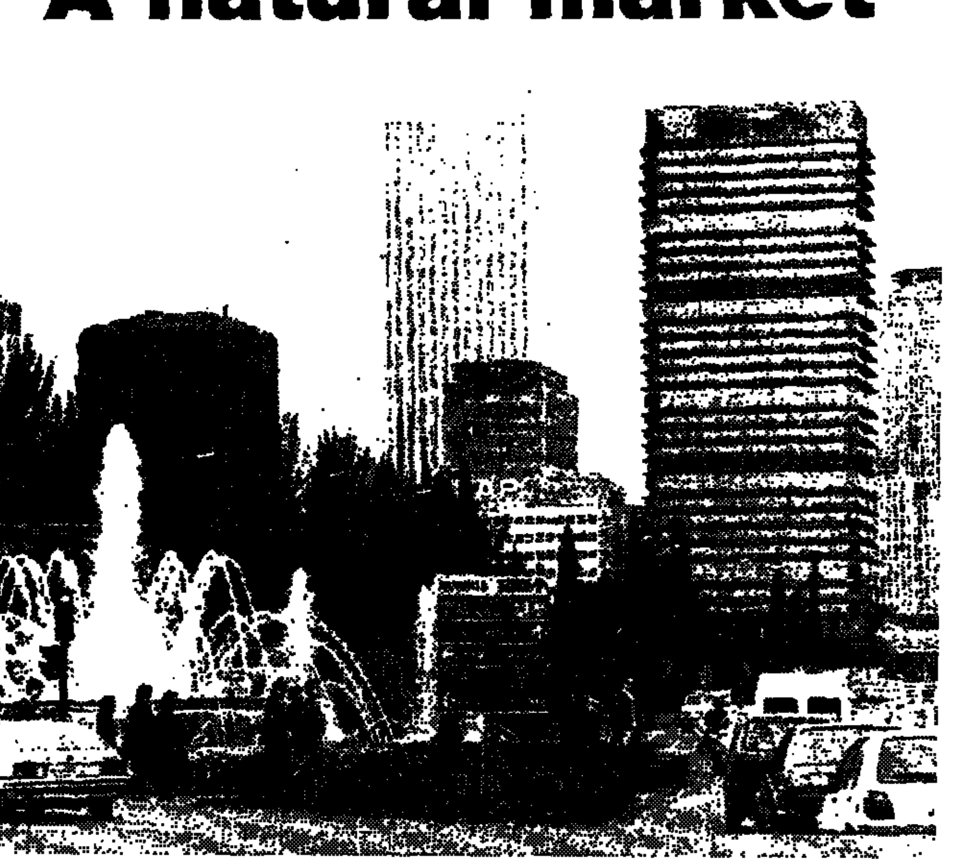
Despite these concerns, the airport is soldiering on and attracting more, if small, airlines. AeroCancun, for service to Mexico's resort of Cancun; American Eagle, the commuter affiliate of American Airlines; GP-Express, another commuter carrier; and Kiwi, a small East Coast airline, have set up at Hartsfield over the past year.

Yet, perhaps more importantly, with the south-east as the fastest growing region in the US, Hartsfield seems on a relatively sure footing for the future.

Barbara Harrison

■ HUBS: IBERIA'S LINKS

A natural market



Madrid: Iberia refers to its base at Barajas airport as Latin America's gateway to Europe   Picture: Ashley Ashwood

Iberia, Spain's national carrier, has betted strongly on what it likes to call its natural market. During the 1990s it intends to make the airline synonymous with travel to and within Latin America.

Iberia is traditionally the most frequent European flier to Latin America and it has stolen a march on its European rivals by establishing a hub in Miami that distributes passengers arriving on the daily flight from Madrid to seven destinations in Central America.

In Buenos Aires and Caracas Iberia has created distribution services to the southern cone and to the Andean countries respectively. These hubs are being built on the back of an ambitious attempt to establish associations with as many Latin American airlines as fit in with Iberia's growth strategy for the continent.

Iberia currently has management control of Aerolineas Argentinas, in which it has a 30 per cent stake, and of Venezuela's Viasa where it now owns 45 per cent of the equity. The airline also has a 35 per cent stake in Ladeco, the Chilean airline; is negotiating the purchase of the Dominican Republic's Dominicana de Aviacion to boost its Caribbean presence; and has explored potential acquisitions in the Andes, specifically in Bolivia.

A measure of Iberia's designs on the Latin American continent is provided by its recent creation of a subsidiary in Argentina called Inter Austral to provide a commuter service linking the cities of Salta, Mendoza and Cordoba as well as Buenos Aires. The airline believes that it is worth exploiting the large-scale cutbacks that are being implemented in Argentina's railway system.

Already Iberia is working on plans for a corporate image that will bind its Latin American offshoots together. The individual airlines that are now associated to the Spanish carrier are proud of their identities and wary about losing them. In Madrid, Iberia executives say the image is necessary in order to foster client recognition but that it will be introduced gradually.

At present the general framework of Iberia's Latin American operation consists of transporting passengers from Europe and then quickly spreading those that are in transit to further destinations around the continent. From Miami they are flown on a daily basis to Cancun, Mexico, for example; from Caracas to La Paz in Bolivia and from Buenos Aires to Santiago de Chile or to Asuncion, Paraguay.

From such Central and South American locations, travellers are pooled together in the three hubs for the transatlantic flight. Iberia refers to its base at Madrid Barajas airport as Latin America's gateway to Europe; Spain is the continent's main European destination, followed by Italy, France and the UK.

Iberia's ultimate aim, however, is to gain a substantial quota of the lucrative Latin America traffic to the US. Other European airlines approach North America across the Atlantic; Iberia, as it sets down roots in its "natural market", has chosen to enter it primarily from Central and South America.

The Spanish company has few rivals in its transatlantic routes to Latin America but its attempt to capture a significant stake of the North-South market brings it into direct competition with the US carriers, notably with American Airlines. Continuing disputes with American Airlines over reservations and the possibility of a developing price war illustrate the extent of the competition.

The Miami hub is the key to Iberia's North American ambitions. Under a 1991 agreement with the Department of Transportation, Iberia is entitled to fly on from Miami – with US pilots and with US-registered aircraft – to 18 US destinations.

In return for Iberia's Miami facilities, the Spanish authorities have awarded Delta, United and Continental, as well as American Airlines, transatlantic routes to Spain. Iberia has effectively given away a big share of its North Atlantic traffic – it is likely to maintain links only to New York, relinquishing Chicago and Los Angeles – in order to build up the North-South trade in America and the Miami hub.

So far, Iberia has put a pilot scheme into operation that is based on an agreement with Carnival, the US luxury pleasure cruise conglomerate which is based in Miami. The Spanish carrier has hired two aircraft from Carnival airlines which it has decked out in Iberia colours and with which it flies both its own passengers and the pleasure cruise clients from Miami to Chicago, New York, Houston, New Orleans and Los Angeles.

This is the embryo of what Iberia's Miami hub should become. With a further 13 US destinations available to it, the airline seeks to establish a secure niche as a primarily Latino carrier distributing passengers across the US.

American Airlines does not like the prospect one bit. It is at present filing against Iberia which it claims is monopolising computerised reservation and information systems in Spain.

Iberia, which has in the past made similar accusations about American Airlines, says the suit is a disguised attempt to force the transportation authorities to reduce or even withdraw the operational permits it enjoys in Miami. The Spanish carrier had these facilities confirmed last year when the transportation authorities disregarded a set of allegations by American Airlines that were not unlike the present ones.

Iberia can expect a lot more acrimony in the future from US rivals. This will be in direct proportion to its success in building up its Latin American presence. The Spanish carrier has nevertheless chosen the market that it wants to operate and it is unlikely to be deterred from it.

Tom Burns

■ AIRLINE GUIDES

Rival bibles for travellers

IF you are a business traveller working out of London or any other European capital, the bible for you is probably still the ABC World Airways Guide, published by the Reed Travel Group. And if you are business person based in the US you would probably regard the Flight Guide, published by Official Airline Guides as an indispensable prop.

OAG was part of the group of companies controlled by the late Robert Maxwell. According to Mr Jolyon Neely, sales and marketing director – business sector, the company is profitable and effectively controlled by the banks to whom Mr Maxwell owed money.

The point is that these two companies virtually have a duopoly on scheduled airlines guides, but have relative strengths in different markets.

On the face of it, OAG has the larger share of the market. It claims sales of 430,00 units against about 120,000 for ABC.

These figures are not strictly comparable because OAG has a heavy emphasis on the US market, while ABC has more of a dominance in Europe and the rest of the world. Moreover, the two companies produce slightly different products for different markets so comparisons on units of sales is not very meaningful.

Suffice to say the two companies dominate a market which is worth at least £100m and has been growing at between 5 and 10 per cent a year for the past five years. Much of the growth has come from the corporate sector, ie business travellers.

Mr Ron Spiers, publishing director at Reed Travel Group, estimates there 735 scheduled airlines in the world. He says: "We lose some each year and gain some; we are about 10 down on last year."

He adds: "There are 122,243 unique flight numbers each day. If you break these down into sectors, say London, Paris, Johannesburg, then there are 671,000 sectors each day. These sectors are what the monthly guides would catalogue in some way or other each month."

Last year, ABC updated its flagship World Airways Guide and now calls it ABC World Airways Corporate Edition. This is the large tome to be found in many offices. It costs £330 for an annual subscription and is published monthly in two volumes. ABC says it sells about 71,000 of these.

Much of the growth in the corporate market is in the pocket guides, called flight planners. These are condensed versions of the World Airways Guide and cover Europe, Africa, Middle East, Asia-Pacific, and the Americas. ABC sells a total of 26,278 of these around the world, in various editions and different markets. The pocket guides cost £73 for an annual subscription of 12 volumes.

These are the main products of the Reed Travel Group. There are other publications covering hotels, and guides such as the ABC Rail Guide for the UK. This includes timetables and fares. Updated each month it covers all services in London and southern England, with complete details of the rail services between Britain's main towns and cities.

The Reed Travel Group can be contacted in Church Street, Dunstable, Bedfordshire LU5 4HB (Telephone: 0582 600111)

The flagship guide at OAG is the Flight Guide. This is published in two editions, a North American edition and a worldwide edition. The North American edition sells 106,000 copies each year and costs $310 for an annual subscription. The cost of the worldwide edition, which sells 40,000 copies, is $382.

OAG, like ABC, publishes pocket guides. These cover the North Americas as well as Europe, the Middle East, Africa and Asia-Pacific. As with the standard desk Flight Guide, the emphasis on OAG's pocket guides is on the Americas. OAG's pocket flight guides cost $103 for a 12-month subscription. They appear each month. In the UK it is possible now to buy individual monthly editions at selected bookshops. They retail at £4.99 each.

Again these are the main publications put out by OAG relating to the airline business. There are other products covering hotels, shipping and cargo. In Britain, OAG can be contacted at Bridge House, 4 Lyons Crescent, Tonbridge, Kent TN9 IEX. Telephone: 0732-770655.

Both companies are now going electronic. OAG has developed a system of computer discs for IBM-compatible personal computers. This is essentially a floppy disc which is grafted onto a hard disc and is updated each month. The cost of 12 monthly discs is $250.

ABC has chosen a different route via CD-Rom. This means that the purchaser will also have to buy special equipment akin to a compact disc player to use these discs.

Stewart Dalby

■ HUBS: MANCHESTER AIRPORT

Well-established pattern

WHEN British Airways' inaugural inbound flight from Los Angeles arrived at Manchester airport last month, it contained a surprise. Forty of the 218 passengers were en route to Munich, transferring to BA's early morning service on arrival.

BA had not been expecting Manchester to start playing its hub-and-spoke role so quickly – before advertising and promotions had exerted their full effect in California – but the service seems to have tapped a pent-up demand.

With 30,000 advance bookings already, BA's target of 70,000 passengers flying Manchester-LA looks easily attainable.

It fits a now well-established pattern. Qantas was the first international carrier to give Manchester a proper test with a scheduled long-haul service 10 years ago.

This has since proved to have been the critical first step towards a remarkable progress.

In 1985, the airport had 2.4m scheduled passengers, 3.7m chartered, and 114,000 in transit, making a total of 6.2m.

By the end of last year numbers had doubled, with 4.8m scheduled, 6.9m chartered, and 747,000 in transit, totalling 12.4m.

The three categories grew by 100 per cent, 88 per cent and more than 500 per cent respectively over the eight years.

This means that the scheduled traffic, which carries business travellers, is growing faster than the holiday traffic, while rapidly rising numbers of transit passengers are proving Manchester's emergence as a hub.

Last month, Manchester opened the £265m first phase of its Terminal Two, so it can grow to 18m passengers a year. There are now 94 airlines serving 166 destinations.

Most of Europe is now covered – with day trips to, for example, the main business centres of Germany, France or the Netherlands exploited by growing numbers of business travellers.

American Airlines was the first US carrier to fly direct into Manchester, opening a daily route to Chicago in 1986

But it is the growth of worldwide connections which is establishing Manchester's international credibility.

Manchester's attraction is 20m people within two hours' driving.

Qantas tested a research finding that most of the 50,000 northerners then travelling to Australia via other airports each year would prefer not to change aircraft.

"They got 28,000 in the first year; now it's up to 75,000," Mr Gil Thompson, Manchester airport's chief executive, says. "Qantas proved that the northerner rewards the airline that flies to his doorstep. Our research shows that if airlines come in here, people will move their itineraries around to use the services."

Manchester was also helped by a cross-party lobbying group called the Northern Consortium, formed by local authorities throughout the north of England.

It helped Manchester airport's designation by the government as both an international gateway and the UK's northern hub.

The airlines soon got the message. The airport itself always offered BA first crack at any new potential route, but knew foreign airlines were eager to step in if BA did not want the route because of its commitments at its Heathrow headquarters.

American Airlines was therefore the first US carrier to fly direct into Manchester, opening a daily route to Chicago in 1986.

Mr Iain Burns, a former Manchester airport employee who now works for American, says: "There was a huge untapped market of business travellers in the north of England. There was, and still is, a pronounced feeling among businessmen in the north that they should not have to travel to the US by way of London."

Manchester to Chicago is one of the airline's most profitable routes, with flights close to full.

Mr Burns says: "The attraction of Chicago for the business traveller is that it is an important hub. New York is essentially a point-to-point airport. From Chicago it is possible to fly to 114 other destinations. Only 30 per cent of our passengers finish their journeys in Chicago. The other 70 per cent fly on somewhere else."

Delta Airlines is also happy with Manchester, from where it has been flying daily to Atlanta for nearly two years.

An official said: "This flight is very profitable. We carried 136,000 passengers last year, which means pretty full payloads. It did not start quietly, then limp along and finally pick up. We did well from day one."

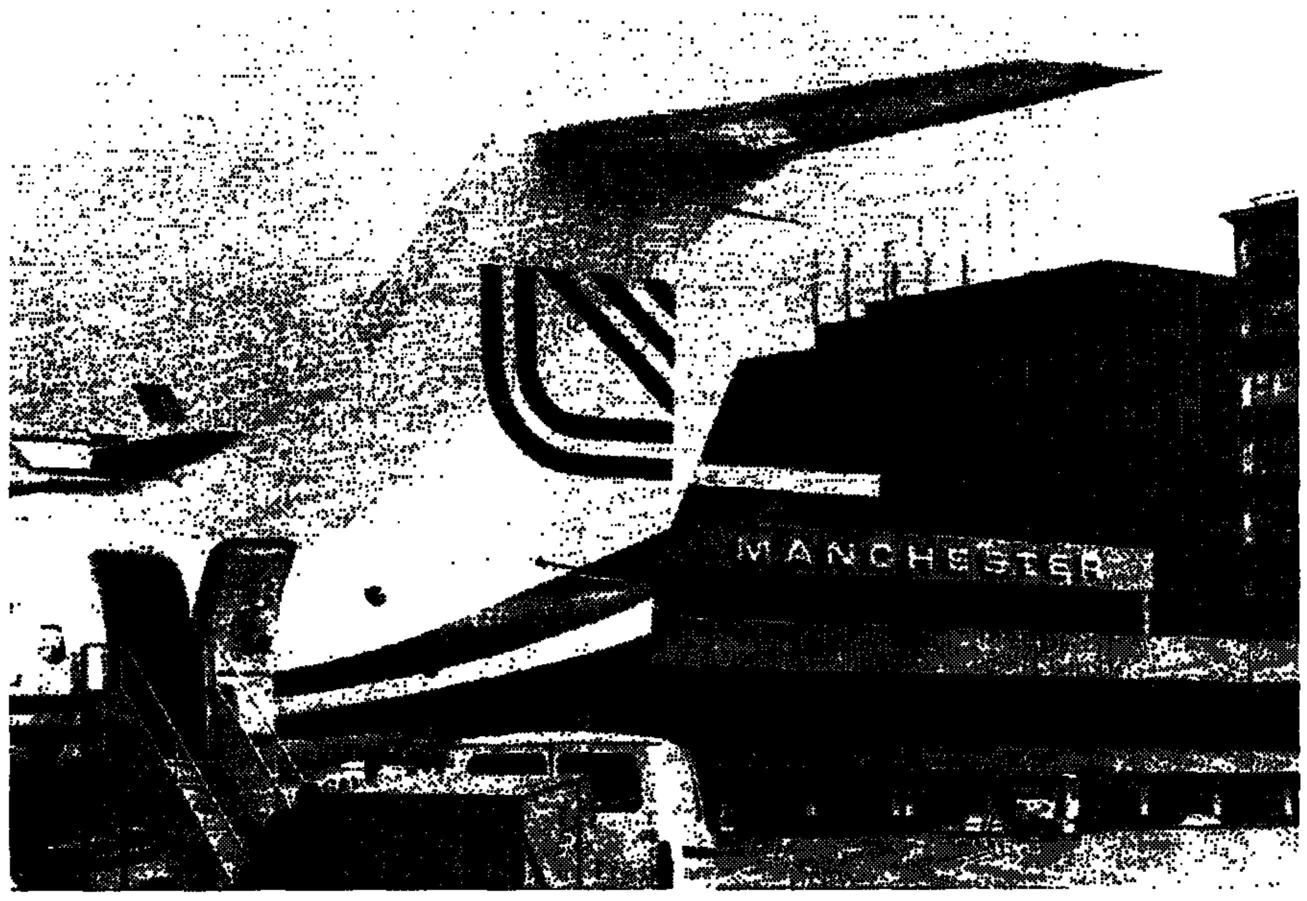
Cathay Pacific has three flights a week to Hong Kong. Mr John Paterson, Cathay's manager for Britain and Ireland, says: "The problem of going via Heathrow is that you have to change terminals and flights. From Manchester you can fly direct, with one stop in Frankfurt."

This creates the minimum of disruption for travellers but also enables Cathay to top up with passengers in Frankfurt. Profitability is encouraging Cathay to increase to five flights a week in July, followed by daily services when it can get the slots.

Mr Thompson says: "We have then been able to prove if that airline were minded to fly direct from Manchester, it would carry at least 50 per cent more than our market research first indicates is available.

Chicago is a case in point: there were 40,000 when American Airlines started, then 60,000, then 80,000, then 90,000. . and now it's 130,000 people."

Competition is also effective:



Manchester airport: Scheduled traffic, which carries business travellers, is growing faster than holiday traffic *Picture: Mike Aron*

"When American Airlines started a daily service to New York – as British Airways already offered – BA was afraid it would halve the cake. What has it done? It has doubled the traffic. Instead of 100,000 passengers a year to New York from Manchester, there are now 200,000.

"Our research has shown that direct, particularly non-stop services, multiply the traffic. We are not in the business of putting airlines on the margin by trying to cut the cake into too many small slices," Mr Thompson adds.

As well as passengers driving to Manchester, the airport also promised airlines it would use valuable air traffic slots to improve feeder services. This has also paid off.

"There are now more domestic passengers feeding Manchester as a hub than any other airport in the country, including London," Mr Thompson says.

"We have 19 domestic routes. We feed them in from places such as Dundee, Edinburgh, Exeter, Southampton, Belfast, Cardiff and Newcastle. It's expensive in terms of slots, but it's our investment in the future – to be a hub, rather than an airport that flies from point to point."

About 250,000 extra passengers have therefore been delivered to the long-haul scheduled carriers, the bulk of them business travellers.

Manchester also offers another advantage – it is up to an hour nearer New York than London is, partly because of less air traffic congestion. Business leaders point to a 5½-hour journey time eastbound.

There are still gaps in Manchester's schedules, such as Vienna and Japan, but Mr Thompson and his team are working on them, with a regular return service to Osaka by All Nippon Airways the best bet for the next new long-haul route.

Ian Hamilton Fazey

■ HUBS: SINGAPORE

Busiest in south-east Asia

Planning, planning and more planning has been the secret of Singapore's success. Over the past 30 years, Mr Lee Kuan Yew, the former prime minister, and his team of technocrats and planners have turned Singapore from a neglected post-colonial outpost into one of the world's most dynamic economies, with the second-highest per capita income level in Asia.

Changi airport, Singapore's international air terminus, is just one example of the meticulousness of the city state's planners. Changi, more than half of it built on land reclaimed from the sea, was opened in 1981. A second runway began operating three years later. In 1990, a second terminal was opened. Changi is consistently voted by international travellers to be among the world's best airports.

According to the civil aviation authority of Singapore (CAAS), Changi handled 18.1m passengers and more than 700,000 tonnes of air freight last year, registering growth rates of 11.8 per cent and 11 per cent respectively.

Changi is now served by 59 scheduled airlines linking it to more than 100 cities in 54 countries. Each week nearly 2,500 scheduled flights land at Changi, making it the busiest air hub in south-east Asia.

Existing facilities at Changi can cope with as many as 24m passengers a year. But the CAAS planners are looking far ahead. Under the terms of a master plan originally conceived back in 1975, work is beginning on a third terminal and there is already talk of building a fourth terminal around the turn of the century.

A frantic bout of airport construction is now taking place in east Asia to cope with a rapid rise in air traffic. The international air transport association (Iata) says only two air traffic "hubs" in the region – Singapore and Taipei – have the facilities in place to deal with projected growth in passengers.

A recent Iata report forecast that airline passenger numbers in the Asia-Pacific region will double over the next six years. By 2000, the region will account for nearly 40 per cent of worldwide passenger traffic and by the year 2010 that figure will be more than 50 per cent – representing 375m passengers.

In south-east Asia, Iata predicts that passenger traffic will increase by more than 9 per cent per year up to 1995, compared with an annual growth of 3.9 per cent in Europe and 5 per cent in North America.

Airport overcrowding and various infrastructure bottlenecks threaten to hold up passenger growth in the region. Tokyo, Osaka, Seoul, Hong Kong, Bangkok and Kuala Lumpur are all planning or actually building new airports. But if passenger growth continues to climb in line with Iata projections many of these facilities will be operating at virtually full capacity from the day they open.

Singapore is making full use of the advantages of its superior aviation facilities to establish itself as a hub not only for the region, but for worldwide airline traffic.

Singapore Airlines (SIA) has been at the centre of Changi's development as a hub. Over the years SIA has rapidly expanded both its regional and long-haul operations. At the end of last year SIA had flights to 66 cities in 40 countries with more than 400 weekly services. In the past two years alone, nine new destinations have been added to the SIA network.

SilkAir, a wholly-owned SIA subsidiary, has concentrated on pioneering various regional routes out of Singapore. These services link into SIA services.

Mr Michael Tan, SIA deputy managing director for commercial affairs, says the primary aim of the airline's route planning is to gain access to both key and developing markets, offering passengers and freight customers a comprehensive network with a high frequency of fast, non-stop services.

Other airlines have been approached by Singapore's civil aviation authority to use Changi as a hub

"Our scheduling strategy emphasises the integration of the long haul and regional services, SIA to SIA and SIA to SilkAir, thus building a strong hub at Changi airport, which is the ideal airport given its modern and efficient facilities," says Mr Tan.

But Changi's hub operations are not exclusive to SIA. Singapore's planners realise that if the airport is to develop to its full potential, other airlines must also use it as a hub for their flight operations.

In 1989, Singapore signed an agreement with Britain which allowed British Airways hubbing rights out of Singapore. In time BA will be able to base fleets of smaller aircraft at Changi servicing regional routes, which will then link up with the airline's longer-haul flights.

At the time the agreement was described as a model for other countries to follow. Mr Lim Chin Beng, SIA's deputy chairman, says the future of aviation rests on developing such a hub-and-spoke system at airports.

In return for use of its facilities at Changi, SIA has pressed for increased traffic rights and hubbing at other centres. Other airlines have been approached by Singapore's civil aviation authority to use Changi as a hub, including United Airlines, Qantas and Japan Airlines.

SIA recently lost a battle with British Airways for a stake in Qantas. But the Australian carrier is already using Changi as a hub or "feeder" airport for its rapidly-expanding regional services. Qantas flights between Singapore and Hong Kong, Bangkok, Kuala Lumpur and Jakarta are being linked in to the airline's long-haul services between Australia and Europe.

Last year, Singapore and Australia agreed to a 50 per cent increase in air traffic between the two countries up to 1995 in order to boost tourism and trade.

In tandem with Changi's development as a passenger traffic hub, moves have also been made to increase Singapore's importance as an international freight hubbing centre.

In late 1990 the air transport agreement between Singapore and the US was revised, allowing US carriers extensive hubbing rights for freighter services out of Singapore. US airlines can now operate up to 42 B747 cargo services between Singapore and other destinations in the Asia Pacific region. These services can then feed cargo to their long-haul flights.

In return, Singapore secured an Atlantic routing with access to four points in the US, including New York, and onward services into Canada. Certain restrictions on the Pacific route into the US were also lifted.

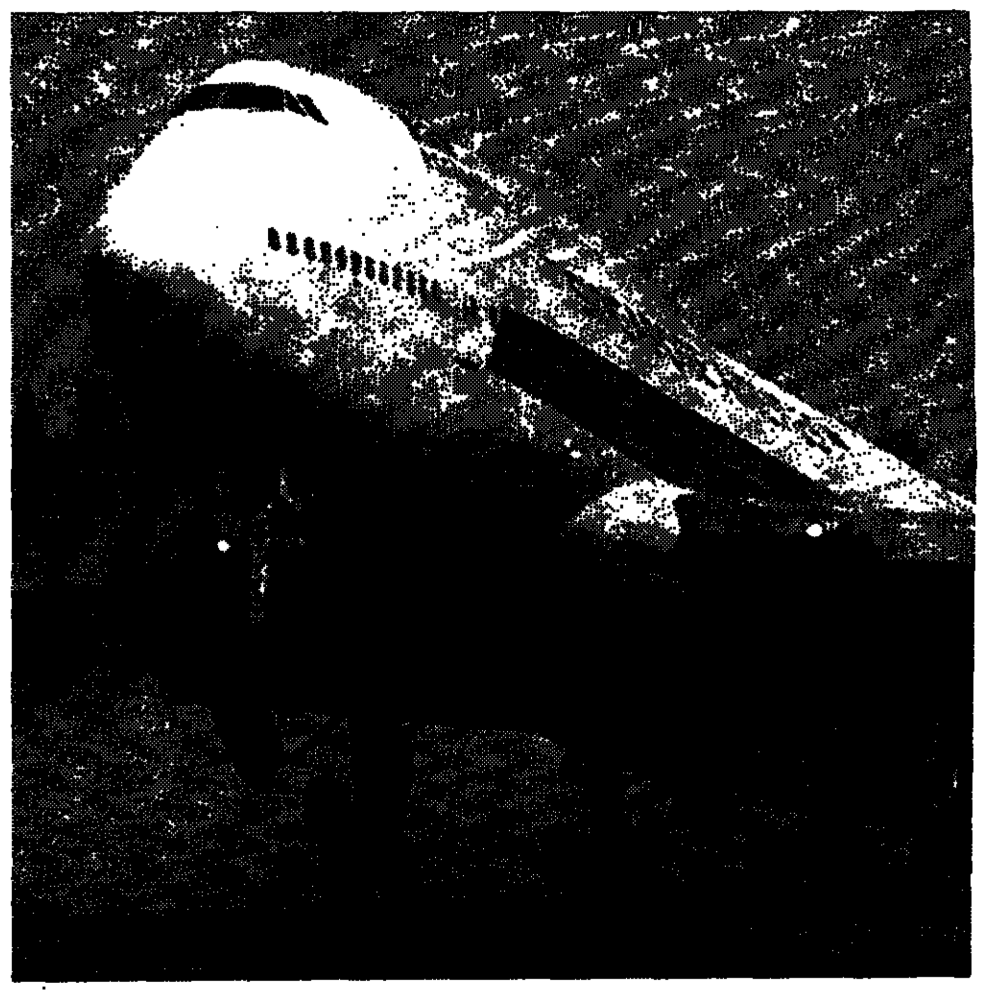
Increased maintenance facilities at Changi have also helped Singapore's development as an aviation hub. A large number of airlines now use Changi's sophisticated technical facilities.

In a recent statement, Boeing noted that an increasing proportion of its orders came from the Asia Pacific region. Of the 226 747-400s so far delivered, 53 per cent have gone to carriers in the region.

Singapore is the main location for Boeing's spares support facility in the Asia-Pacific region. A new centre near Changi will operate round the clock to service the needs of carriers using Singapore.

Mr Karmjit Singh, assistant director for corporate affairs at SIA, says all these factors have helped strengthen Changi's role as a hub. "A hub does not just happen," says Mr Singh. "It is the product of a strategic vision, sound long-term planning and meticulous implementation."

Kieran Cooke



Singapore Airlines has been at the centre of Changi's development as a hub, flying to 66 cities in 40 countries

■ AIRLINE SLOTS: A PLACE ON THE TARMAC

Increasingly hostile dogfight

THE captain of the British Airways shuttle to Belfast was apologetic. "You could be forgiven for thinking we were going via Rome," he told his passengers. "We have taxied about four miles around Heathrow, but we have the next slot in the queue."

Flight BA4572 operates in one of the many slots which together give BA a commanding share of traffic at Europe's busiest international airport.

Slots, a prized possession at busy airports, give carriers access to runways where air traffic is limited because of congestion. The Belfast shuttle is one of thousands of flights in Europe which depend on traffic flows controlled by slot schedules.

The system regulates departures and arrivals at London's Heathrow and Gatwick, Frankfurt, Milan and Munich.

By 1995, increasing congestion is expected to require slot restrictions at Geneva, Rome, Stuttgart, Paris Orly and Düsseldorf.

Increasing frustration at slot restrictions has now prompted several carriers to seek changes in the traffic management of Europe's air space.

Aware of complaints that smaller airlines get a poor deal in the share-out, EC transport ministers last year decided to tighten the rules so that airlines would lose slots they don't use. But some operators, such as Virgin Atlantic Airways, claim the moves do not go far enough. It wants slots confiscated from large carriers to make way for new ones.

For the business traveller, the argument turns on whether a more equitable distribution of slots would provide more choice and better service for the consumer.

Independent carriers such as Virgin at Heathrow and ANA at Tokyo Narita argue that airlines operating existing routes would be forced to improve services with more direct competition. That competition depends on rival carriers being awarded slots at the right time to mount an effective challenge.

The bodies governing slot allocation are not so sure. They are reluctant to endorse a sweeping upheaval of the slot allocation system and prefer instead to increase availability through piecemeal improvements in air traffic control and terminal capacity.

In terms of consumer choice and service, it is questionable whether travellers would see an immediate benefit if the authorities embarked on a Robin Hood strategy of taking slots from the rich – mega-carriers such as United, American, BA and JAL – to give to the poor.

The small independents, however, claim their whole future depends on slots. Without them their hopes for expansion and a larger route network will be frustrated. Virgin, for example, has route licenses to fly to San Francisco and Washington but cannot begin services from Heathrow without slots. The equation is quite simple: no slots, no service.

The European Commission is now considering a complaint that slot allocation at Heathrow is unfair. Virgin hopes the ruling, expected in the summer, will transform take-off and landing patterns at London.

Whatever the Commission's decision, the big carriers will fight tooth-and-nail against surrendering slots. They are a heavyweight lobby and many, including BA and Lufthansa, will argue that their sizeable share does not inhibit fair competition.

BA is extremely reluctant to give up its hold on 39 per cent of Heathrow slots and says it compares favourably with the control exercised by US carriers at their home hubs.

American Airlines controls 65 per cent of slots at Dallas; United 68 per cent at Washington and 48 per cent at Chicago; Delta has a 70 per cent share at Atlanta. The best bet for smaller carriers seeking slots lies not with allegations of market-rigging and complaints to Brussels. They should concentrate instead on making gains out of the increasingly hostile dogfight being waged by the mega-carriers under the auspices of air liberalisation.

United, for example, has decided to test Britain's commitment to liberalisation by agreeing to buy the Gatwick-Philadelphia licence from USAir on condition it can transfer the route to Heathrow and use it to serve Chicago.

If the move is approved it could create opportunities for other airlines to press their case.

In the end, however, Heathrow will reach saturation point and there will be fewer slots.

For all their lobbying of politicians and transport user groups, the airlines seeking clearance at the world's most popular hub will have to wait for gradual improvements in technology and runway capacity that should, in time, make more slots available.

At Heathrow, this piecemeal expansion is overseen by three different bodies: the Civil Aviation Authority (CAA), in charge of air traffic control; BAA, the airports operator which provides gates and terminal capacity; and Airport Co-ordination Limited (ACL), the final arbiter of UK slots.

Under the system, no slots can be allocated without the approval of two men. Dr Peter Brooker, chief scientist at the CAA, decides the sustainable runway capacity at Heathrow and Gatwick.

He has set the runway rate at Heathrow at 76 movements an hour. This compares with 67 an hour in 1981 and reflects improvements in air traffic control and the use of "fast taxiways" that enable aircraft to join or exit runways with greater frequency.

Mr Peter Morrisroe, managing director of ACL, is Britain's independent slot co-ordinator. He decides where to allocate capacity following bi-annual meetings with the CAA, BAA and the airlines concerned.

Most slots at EC airports are in the gift of co-ordinators employed by national flag carriers. Britain – reacting to complaints of slot rigging – has now urged its EC partners to follow Heathrow's example and set up an independent body to make allocations.

According to Virgin, however, London's independent co-ordinator is too partial in favour of BA and it wants a radical change. "We believe slots should be allocated for a 10-year period and should be handed back if there is a change of use," the airline says.

Such initiatives are not welcomed by all the independents. British Midland, the short-haul carrier with 14 per cent of Heathrow slots, is pursuing another course. It wants to see US-style "mixed-mode" operations which allow aircraft to take off and land on the same runway. At present, Heathrow's two runways are reserved for one or the other.

Sir Michael Bishop, British Midland's chairman, argues that such a system would free more slots for some of the 62 airlines operating out of Heathrow. But the CAA says there is no leeway for mixed-mode operations. "A take-off between two landing aircraft would be difficult to introduce because of the Vortex Separation Standards which ensure a three-mile gap between each aircraft movement," it says.

Mixed-mode slots are also constrained by environmental regulations designed to minimise the airport's impact on residential areas. Any change would require political intervention, according to the authority.

"The biggest move to get more slots is to extend the working day. With only an extra half hour in the morning and in the evening you'd get an extra 74 movements," the CAA adds.

The proposal is backed by British Midland, which says it would create slot vacancies by enabling long-haul flights to land earlier.

Sir Michael claims European airports are also following US trends by allowing slots to be leased or sold by one carrier to another.

In the US a peak period slot at a leading hub has an estimated value of $1m. An American carrier may own 20 or more gates at a particular hub which it can sell or lease to its rivals. But the European Commission is opposed to the idea.

"The pricing mechanism used in the US is not considered appropriate for Europe because it would increase the costs considerably and would not be in line with the policy of the Community to increase competition," Commission officials say.

The system of buying and selling slots is fraught with difficulties because most European carriers do not own airport gates; they share them. Gate control lies with the airport operators.

Limitations on use of gates and runway capacity has forced airlines to maximise the use of existing slots by switching routes and introducing larger aircraft into their schedules. British Midland, for example, has abandoned services from Heathrow to Liverpool and used the slot to serve Frankfurt.

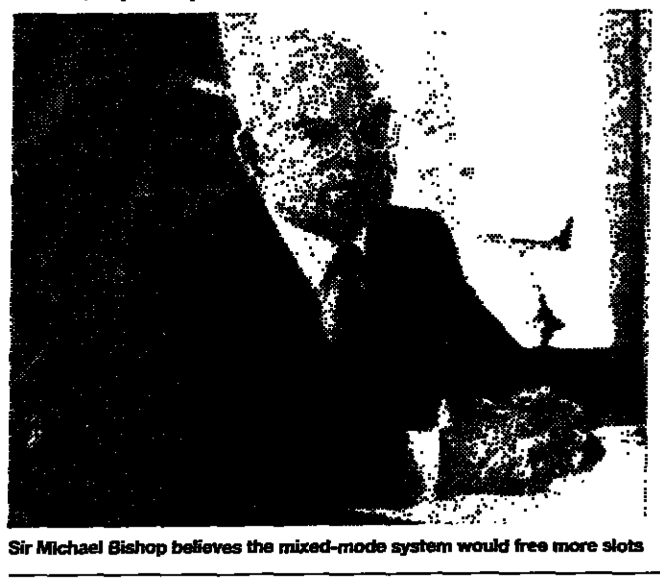
Using bigger aircraft for existing slots might avoid increased congestion on the runways but can lead to jams in the terminals. To solve that problem a number of European hubs including Paris Charles de Gaulle and London Heathrow have embarked on ambitious plans to create more terminal capacity.

BAA says its proposed fifth terminal will handle a further 10m passengers by the turn of the century and 30m by 2015 – without any increase in the number of slots available.

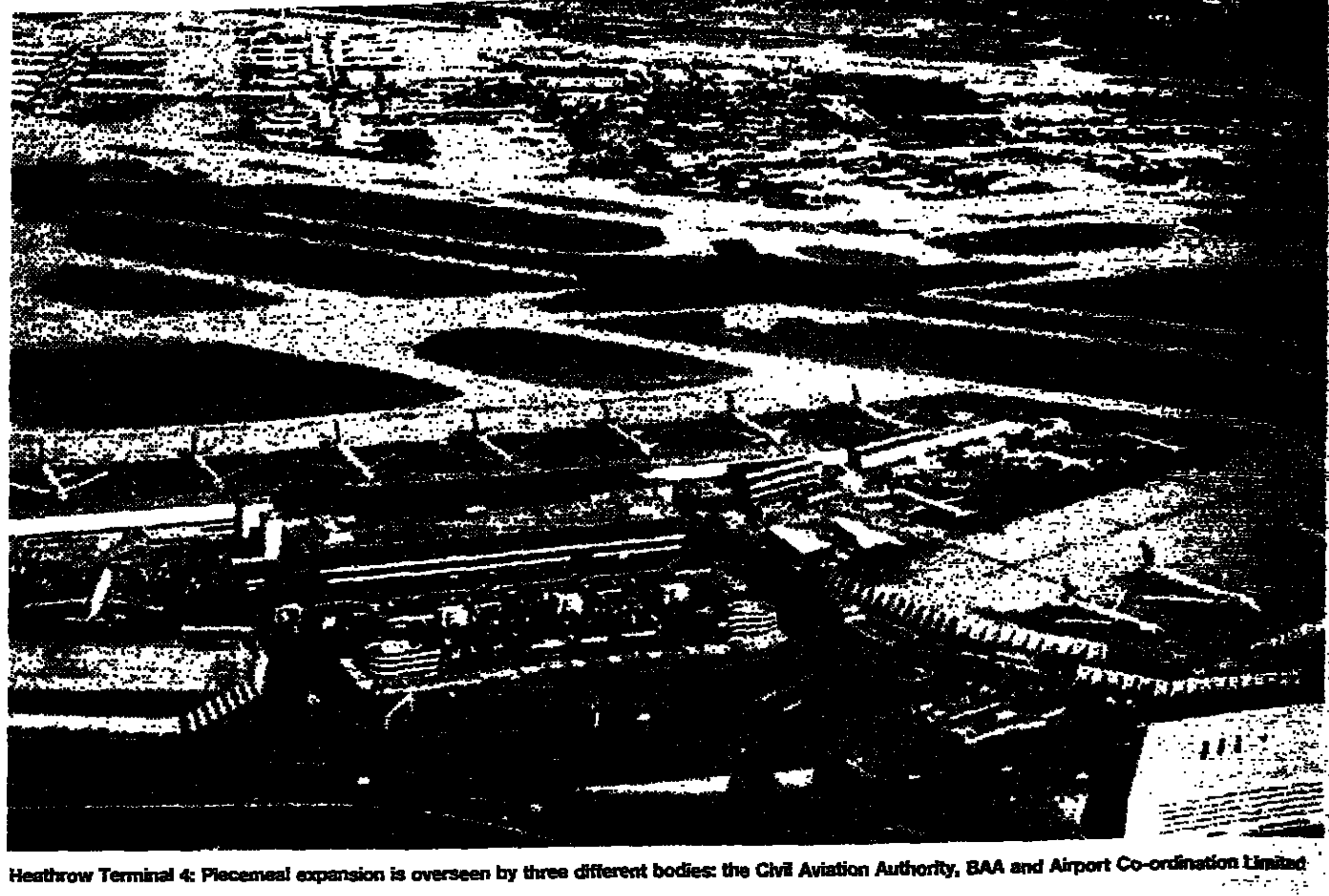
"Overall, the planes coming in are going to get larger," says BAA. "We expect an increase of 2 per cent in average size by the time the new terminal opens.

"Until then we have to hope that slot allocation will be more flexible. But aircraft will still be stacking at the runway for some time to come."

Tim Burt



Sir Michael Bishop believes the mixed-mode system would free more slots



Heathrow Terminal 4: Piecemeal expansion is overseen by three different bodies: the Civil Aviation Authority, BAA and Airport Co-ordination Limited

Improvements in air traffic control can increase the availability of slots